

Steps Towards Peace: Putting Kashmiris First

I. OVERVIEW

India and Pakistan have consistently subjected Kashmiri interests to their own national security agendas and silenced calls for greater autonomy. With the start of their composite dialogue – comprehensive negotiations to resolve all contentious bilateral issues, including Kashmir, launched in February 2004 – both appeared willing to allow more interaction across the Line of Control (LOC) but failed to engage Kashmiris in the process. As a result, they did not take full advantage of opportunities to enhance cross-LOC cooperation by identifying the most appropriate Kashmir-specific confidence-building measures (CBMs), and bureaucratic resistance in both capitals resulted in uneven implementation of even those that had been agreed. India has suspended the composite dialogue since the November 2008 Mumbai attacks by Pakistan-based militants, but neither New Delhi nor Islamabad has backtracked on these CBMs. Nevertheless, the CBM process will only achieve major results if the two sides devolve authority to Kashmir's elected representatives and take other vital steps to win over its alienated public.

Despite the recent rise in militancy, clashes between separatists and security personnel and other violence, Kashmir (known formally as Jammu and Kashmir, J&K) is not the battlefield it was in the 1990s. The Indian government has pledged to reduce its military presence there and has made some overtures to moderate factions of the separatist All Parties Hurriyat Conference (APHC). It has also refrained from the blatant election rigging that characterised J&K polls in the past. The roots of Kashmiri alienation, however, still run deep, and outbreaks of violence occur regularly. J&K remains heavily militarised, and draconian laws that encourage human rights abuses by security forces remain, fuelling public resentment that the militants could once again exploit.

In Pakistan, the Pakistan Peoples Party (PPP)-led government has taken some action against operatives of the Lashkar-e-Tayyaba (LeT), renamed Jamaat-ud-Dawa (JD), responsible for the Mumbai attacks. The alleged masterminds of this action are being tried, the first time in the country's history that criminal charges were levied against the perpetrators of terrorism on foreign soil. Pakistan-based militants, however, still regularly infiltrate the LOC, and the military, which retains control of Kashmir policy,

continues to support Kashmir-oriented jihadi groups, including the LeT/JD and the Jaish-e-Mohammad. A second Mumbai-like attack in India by these or other Pakistan-based jihadis would bring relations to another low, indeed possibly to the brink of war.

Post-Mumbai, mounting tensions between the two neighbours have eclipsed Kashmiri hopes for political liberalisation and economic opportunity. Given the Kashmiri political elites' subservience to New Delhi or Islamabad, this atmosphere of mutual hostility is widening the gulf between J&K and Pakistan-administered Azad Jammu and Kashmir (AJK), undermining the progress that had been made in softening the borders that divide the Kashmiri people. Moreover, the corrupt and dysfunctional state governments in both Srinagar and Muzafarabad are failing to provide basic services and are reluctant to solicit voices from across the political spectrum, thus contributing to the fractures in Kashmiri society. In India-administered Kashmir, for instance, Ladakh and Jammu are increasingly resentful of the Valley's monopoly over J&K's relations with New Delhi.

The Indian government cannot afford to postpone crucial decisions to improve centre-state relations. It should revive the "special status" guaranteed by the constitution and repeal all draconian laws. Replacing military-led counter-insurgency with accountable policing and reviving an economy devastated by violence and conflict would instil greater confidence among Kashmiris. It is in New Delhi's interest to be regarded as a sincere partner committed to improving Kashmiri lives, not as an occupying force.

While Pakistan's elected civilian leadership has expressed a desire for improved bilateral relations and to resume the composite dialogue, it must ensure that jihadis can no longer disrupt the regional peace. Islamabad must also make certain that civilian institutions, particularly AJK's elected bodies, drive the normalisation process. Likewise, policymakers in both the national capital and Muzafarabad should prioritise reforms that open political debate to all shades of Kashmiri opinion, stimulate the local economy and end AJK's over-dependence on the centre.

This briefing resumes Crisis Group reporting on the Kashmir conflict after a four-year gap, assesses existing cross-LOC CBMs and identifies the key political, social and economic needs of Kashmiris that need to be addressed on both sides of the divided state.

II. CBMS – A MIXED START

Since the composite dialogue began in 2004, India and Pakistan have agreed on a number of steps to normalise relations.¹ These include Kashmir-specific CBMs that focus on restoring communications routes and promoting trade across the LOC for the first time since independence.

The Karavan-e-Aman (Caravan of Peace), a bus service linking Srinagar and Muzaffarabad, was launched on 7 April 2005. In June 2006, a second bus line started operating between Poonch in J&K and Rawalakot in AJK. An AJK Chamber of Commerce and Industry delegation visited its counterparts in Srinagar and Jammu to establish the first joint non-governmental body, the Intra-Jammu and Kashmir Chamber of Commerce and Industry.² On 21 October 2008, trade started on the Srinagar-Muzaffarabad and Poonch-Rawalakot routes, opening J&K's traditional trading outlets to the west for the first time since 1947. Intra-Kashmir trade is exempted from customs duty, and trading centres operate twice a week.

While positive, these steps have yet to generate the goodwill among Kashmiris that was envisaged. Trade, which is currently limited to 21 items from each side, mainly locally-produced primary products and some manufactured goods, such as handicraft and mattresses, has been hampered by bureaucratic hurdles and the absence of a proper trade regime.³ Bus lines have been running below capacity, although authorities have received thousands of applications for travel. In its first year, to April 2006, the service carried only 365 passengers from J&K and 345 from AJK.⁴ While cross-LOC travel has since picked up,⁵

obtaining travel permits remains a lengthy and cumbersome procedure. Only those with close relatives living on the other side are eligible to apply; AJK officials are barred from using the service. Permits issued in Muzaffarabad have to be approved by Srinagar and vice versa, and both must also be cleared by Pakistani and Indian intelligence agencies. Applications are often rejected without any further explanation than "threat to national security"⁶ or are left pending for months.⁷

In July 2008, the Joint Working Group on Kashmir CBMs agreed to ease travel restrictions by introducing a triple-entry permit and expediting the issuance of permits, including by allowing local authorities in Poonch and Rawalakot to receive applications previously handled only in Muzaffarabad and Srinagar.⁸ In September 2008, a few weeks before the Mumbai attacks stalled the composite dialogue, both bus services started operating on a weekly rather than fortnightly basis. The local authorities, however, still have no control over the travel regime, which means that Kashmiri mobility hinges on two major factors: approval by the security apparatus in both states and good relations between India and Pakistan. Post-Mumbai, both remain uncertain.

In February 2010, the Indian and Pakistani foreign secretaries met in New Delhi, the first formal bilateral talks since the Mumbai attacks. While the Indian government has agreed to talks between the two foreign ministers, it refuses to resume the composite dialogue, insisting that normalisation will depend on Pakistan taking more concerted action against Kashmir-oriented jihadi groups.⁹ Cross-LOC infiltrations by Pakistan-based militants continue, and cross-border firing between the two armies has also become more common in 2010 than in the previous two years. Yet, both governments seem determined to avoid escalating tensions or abandoning Kashmir-specific CBMs. If the CBMs are ultimately to contribute to restor-

¹ For previous Crisis Group analysis of Pakistan-India relations and Kashmir, see Asia Briefing N°51, *India, Pakistan and Kashmir: Stabilising a Cold Peace*, 15 June 2006; and Asia Reports N°79, *India/Pakistan Relations and Kashmir: Steps Towards Peace*, 24 June 2004; N°70, *Kashmir: Learning from the Past*, 4 December 2003; N°69, *Kashmir: The View From New Delhi*, 4 December 2003; N°68, *Kashmir: The View From Islamabad*, 4 December 2003; N°41, *Kashmir: The View From Srinagar*, 21 November 2002; and N°35, *Kashmir: Confrontation and Miscalculation*, 11 July 2002.

² Moeed Yusuf, "Promoting Cross-LoC Trade in Kashmir: An Analysis of the Joint Chamber", U.S. Institute of Peace (USIP), special report, August 2009.

³ Report on cross-border trade, Joint Working Group on CBMs, September 2008. Appendix A ("Items to be traded from Islamabad to Chakoti and Chakandabagh to Rawalakot") and Appendix B ("Items to be traded from Chakoti to Islamabad and Rawalakot to Chakandabagh").

⁴ See Crisis Group Briefing, *India, Pakistan and Kashmir: Stabilizing a Cold Peace*, op. cit., p. 10.

⁵ According to India's home ministry statistics, by the end of 2006, 3,000 people had travelled on the Muzaffarabad-Srinagar bus line, and 1,400 had used the Rawalakot-Poonch bus ser-

vice. See P.R. Chari and Hasan Askari Rizvi, "Making border irrelevant in Kashmir", USIP, special report, September 2008, p. 7. According to official AJK sources, by the end of 2009, the bus lines had carried over 12,000 passengers. See Shaheen Akhtar, "Expanding Cross-LoC Interactions: Perspectives from Pakistan", Institute of Peace and Conflict Studies (IPCS), September 2009.

⁶ Crisis Group interview, P.R. Chari, IPCS, New Delhi, August 2009.

⁷ Crisis Group interviews, Muzaffarabad, July 2009.

⁸ See Akhtar, op. cit.

⁹ Maintaining that the composite dialogue had failed to make any headway because of "a lack of adequate trust", Indian Prime Minister Manmohan Singh also asserted: "We are willing to discuss all outstanding issues with Pakistan. But it should ensure that its soil is not used for terrorism against India". "Trust deficit biggest problem in improving Indo-Pak ties: PM", Press Trust of India, 24 May 2010.

ing normality, however, India and Pakistan must both address the causes of Kashmiri alienation and redefine their relationship with J&K and AJK respectively.

III. JAMMU AND KASHMIR

A. CONSTITUTIONAL RIGHTS, CONFLICT AND SECURITY

1. Autonomy denied

Culturally, religiously and ethnically diverse, J&K is India's only Muslim-majority state.¹⁰ The Kashmir Valley is the most populous of its three regions and has largely shaped the state's relations with New Delhi. Although the territory formally acceded to India in October 1947, J&K officially has more autonomy than other states of the Indian Union, enshrined in its "special status" under Article 370 of the constitution.¹¹ New Delhi has, however, eroded this autonomy by regularly interfering in Kashmiri politics – through coercion and rigged elections, by marginalising independent-minded leaders and by sponsoring the pro-accession National Conference party.

To counter the violent separatist uprising known as the *tahrik* (movement) and sparked in reaction to rigged state elections in 1987, New Delhi imposed governor's rule, promulgating or amending laws aimed primarily at quelling popular support for the revolt. The Jammu and Kashmir Disturbed Areas Act and the Armed Forces Special Powers Act gave civilian and military officials arbitrary powers to arrest and detain for offences as minor as voicing anti-India sentiments and to use force, even if it proved lethal, against anyone suspected of disturbing public order.¹²

Twenty years after the *tahrik*'s onset, violence has declined, with extremist incidents at their lowest in the past two decades. Civilian fatalities in J&K declined from 1,067 in 2001 to 72 in 2009, with the latter figure itself a drop of 42 per cent from 2008. Terrorist incidents declined by 27

per cent compared to the corresponding period in 2008.¹³ Yet, according to Union Home Minister P. Chidambaram, infiltration attempts have continued to increase: "Infiltration has not reduced. Incidents of violence have reduced ... and I attribute it to Army, paramilitary and Jammu and Kashmir police".¹⁴ As a result, tourism has yet to pick up; only 23,000 of some six million foreign tourists to India visited the Valley in 2009.¹⁵

The 2002 state elections saw the first non-National Conference victory, which some interpreted as a sign that New Delhi was abandoning the interventionist policies of the past. "People took up guns because the ballot box didn't count. Now, New Delhi's message is clear: the ballot box does count", said a New Delhi-based professor.¹⁶ Nevertheless, the state's Article 370 autonomy has yet to be revived, and arbitrary powers remain.

Held in the shadow of the gun, and despite the APHC's boycott,¹⁷ the 2002 election raised hopes of more inclusive and representative government and an end to the violence. These expectations have yet to be met. Although New Delhi initiated talks with the APHC in January 2004, they failed to yield concrete results and stalled in 2006, due to reluctance to include hardliners among the separatists in the process.¹⁸

In May 2008, the state government's decision to transfer forest land in the Kashmir Valley to the Shri Amarnath Shrine Trust, which hosts thousands of Hindu pilgrims

¹⁰ The Valley is predominantly Sunni; Ladakh is predominantly Buddhist and Shia; Jammu's population is roughly split between Hindus and Muslims, with the latter predominantly Sunni.

¹¹ Article 370 of the constitution limits New Delhi's jurisdiction to matters related to defence, foreign affairs, communications and currency and requires Indian laws to be approved by the state's constituent assembly. For more analysis on Srinagar-New Delhi relations, see Crisis Group Reports, *Kashmir: The View From Srinagar*; and *The View From New Delhi*, both op. cit.

¹² See "'Everyone Lives in Fear' Patterns of Impunity in Jammu and Kashmir", Human Rights Watch, September 2006.

¹³ South Asian Terrorism Portal Database at www.satp.org/satporgtp/countries/india/staes/jandk. See also Saroj Bishvi, "Demilitarisation in J&K: Politicisation of National Security", IPCS, 26 March 2008.

¹⁴ "Reduction in violence, increase in infiltration in J&K: Chidambaram", Press Trust of India, 19 February 2010.

¹⁵ "J-K govt declares 2010 as 'visit Kashmir' year", *Indian Express*, 6 January 2010. See also Mohd Ashraf, "Tourism as a CBM in J&K: Renewing old routes and exploring new areas in Jammu, Kashmir and Ladakh", IPCS issue brief, no.147, April 2010.

¹⁶ Crisis Group interview, Navnita Chahda Behera, Delhi University, New Delhi, August 2009.

¹⁷ Formed in 1993, the APHC united over 30 parties under anti-India and pro-self-determination themes and gave the *tahrik* a coherent political voice. See Crisis Group Report, *Kashmir: The View From Srinagar*, op. cit.

¹⁸ The Bharatiya Janata Party-led government initiated the talks a few months before its defeat in the 2004 general elections. In September 2004, the new Congress-led government repealed the controversial Prevention of Terrorism Act (POTA), enacted in 2002, which allowed security forces to arrest and detain for up to six months anyone suspected of threatening national security. Later that same year, however, many of the POTA's provisions were incorporated in the Unlawful Activities Prevention Amendment Act, and the law was tightened again after the 2008 Mumbai attacks.

every year, provoked anger among Muslims, triggering massive separatist-led street demonstrations. It also led to the breakup of the ruling J&K coalition, with the People's Democratic Party withdrawing from the alliance with Congress. When intense public pressure eventually compelled the government to revoke its decision, the agitation spread to Jammu, where Hindus, but also many Muslims, supported the land transfer. Governor's rule was imposed and riots violently suppressed, with firing by police killing several protestors, including an APHC leader in August 2008.

The Shri Amarnath Shrine land row crystallised the break between Jammu and the Valley. According to a Delhi-based analyst, "the fabric of society had never been breached until then".¹⁹ Jammu and Ladakh have since distanced themselves from Srinagar and are attempting to pursue an independent relationship with New Delhi. "Jammu wants its voice to be heard and wants to be included in the dialogue between Srinagar and New Delhi", an analyst noted. "There's resentment towards the hegemony of Srinagar's Muslim leadership and a feeling that the monies [provided by the federal government] are only going to the Valley".²⁰ Communities in Ladakh similarly resent Srinagar's administrative control. "All government jobs, even in Ladakh, are in the hands of people from the Valley. We don't have any possibility of professional advancement within this state", said a Shia resident from Kargil district in Ladakh.²¹

The December 2008 polls, again boycotted by separatists, occurred against a backdrop of militant threats to voters and a security crackdown targeting the APHC, many of whose leaders were placed under house arrest. The elections returned the Omar Abdullah-led National Conference to power. Although the 63 per cent turn out, by official estimates, was not necessarily a sign of renewed public trust in the wider political process, J&K's population was clearly giving the ballot box another chance. Yet, popular disaffection still has the potential to turn violent, and New Delhi and Srinagar cannot afford to ignore Kashmiris' expectations. "People have not given up on the freedom struggle; they're not voting for India, they're voting for their local administration, they're voting for things like jobs, roads, food", said a Kashmiri journalist.²² If even these expectations are not met, Kashmiris might lose their faith in peaceful change through the ballot box.

¹⁹ Crisis Group interview, Suba Chandran, deputy director, IPCS, New Delhi, August 2009.

²⁰ Crisis Group interview, Professor Happymon Jacob, New Delhi, July 2009.

²¹ Crisis Group interview, Gulmarg, August 2009. Ladakh's Leh and Kargil districts have acquired the status of Autonomous Hill Councils, limiting Srinagar's role to matters related to law and order, the judiciary, communications and higher education.

²² Crisis Group interview, Srinagar, August 2009.

2. The rule of the gun

Although cross-border infiltration and militancy in J&K subsided after the composite dialogue began, Pakistan-based radical Islamist groups such as the Hizbul Mujahidin, Lashkar-e-Tayyaba (LeT) and Jaish-e-Mohammed were never dismantled. Still backed by the Pakistani military, they have again resumed violence in J&K, as well as elsewhere in India. As noted above, India held the LeT responsible for the attack in Mumbai in November 2008.

Within J&K, their presence and actions are increasingly resented. Many of these militant groups, for instance, extort money from local businesses and families. "I remember the sense of excitement I felt when the freedom movement started. We Kashmiris, who have long had a reputation of being submissive, were finally standing up for our rights. I sent money from the United States to support the militants, and many of my family and friends who were here at the time hosted them, but now they're just a bunch of criminals who steal our money", said a trader from Srinagar.²³ With the overt militarisation of the state and long record of human rights abuses by Indian security forces contributing to Kashmiri alienation, however, New Delhi is yet to take advantage of this changed view.

Subject to curfews, security checks, arbitrary arrests, torture, rape and extra-judicial killings, the civilian population has long been trapped between militancy and heavy-handed counter-insurgency operations.²⁴ Military, paramilitary and state-backed militias are responsible for thousands of disappearances. New Delhi has decided to reduce its military presence by transferring law and order to the J&K police. But it will have to do far more to win trust, since Kashmiris have grown wary of the uniform, whether Indian or local. "This won't change anything for us. India will just use our own people to continue oppressing us", said a Kashmiri journalist.²⁵

Tapping telephone lines and monitoring email conversations remain common practices. Cell phones were only introduced in the Valley in 2003, and subscribers undergo rigorous identity checks as a counter-insurgency measure. With security forces and militant groups relying on net-

²³ Crisis Group interview, Srinagar, August 2009.

²⁴ See "Buried Evidence: Unknown, Unmarked and Mass Graves in Indian-Administered Kashmir", December 2009; and "Militarisation with Impunity: A Brief on Rape and Murder in Shopian, Kashmir", July 2009, International People's Tribunal on Human Rights and Justice in Indian-Administered Kashmir. See also Survir Kaul, "Kashmir's Sea of Stories", *Outlook Magazine* (India), September 2008; "Armed Conflicts Report: India-Kashmir", Project Ploughshares, 2008; and "'Everyone Lives in Fear': Patterns of Impunity in Jammu and Kashmir", Human Rights Watch, 2008.

²⁵ Crisis Group interview, Srinagar, August 2009.

works of local informants, Kashmiris have come to fear their own neighbours. “You never know where the mole is or who it’s working for”, said a Srinagar resident.²⁶

Islamist militancy has also eroded much of the entente that existed between the religious and ethnic groups.²⁷ Since 1990, the fear of targeted killings and abductions has driven many Kashmiri Hindus (Pandits), out of the Valley to New Delhi or Jammu, where they still live in government-run camps.²⁸ The state and central governments must ensure that they are given viable economic incentives and security guarantees to resettle in the Valley. Indeed, while there is no significant opposition to their return today, some in Srinagar are concerned that Muslim hardliners may again target Pandits.²⁹

It is not only religious minorities that have been forced to migrate because of the conflict and insecurity. A significant number of Kashmiri Muslims have also left due to deteriorating living conditions and an uncertain economic environment. “If I could live there, I would. But how would I work if I had to keep my store closed because of *hartals* [strikes]? How would I feed my family if militants extort money from me? I don’t want to live in fear, and I don’t want my children to grow up in this environment”, said a Kashmiri trader settled in New Delhi.³⁰

The rule of the gun in J&K has taken a particularly high toll on women. While state-backed militias have targeted women in retaliation for their male relatives’ suspected support to militants, militant groups have done the same in retaliation for husbands or sons believed to have betrayed the anti-India cause. The Indian army, too, has often pressured women to convince their husbands and sons to renounce militancy. Moreover, the violence has resulted in thousands of widows, and at least 1,000 “half-widows”, whose husbands have disappeared but have yet to be proven dead. The conflict has left an estimated 30,000 orphans.³¹ These women face enormous social and financial constraints, as well as legal hurdles. Indian law stipulates that a person must be missing for at least seven

years before their property can be inherited. With religious leaders declaring that these women cannot remarry for up to fourteen years, widows are left to raise children and run households on their own and compete for the limited employment opportunities in J&K. Social restrictions also affect Kashmiri women; even their interaction with law enforcement agencies, the first point of contact when male relatives go missing or are arrested, is frowned upon.

Violence against women is endemic. On 30 May 2009, two young women were found dead in a stream close to a village in the Valley’s Shopian district, allegedly raped and murdered by Indian security personnel. This provoked another spate of protests against the Srinagar government, security forces and investigators, whom demonstrators accused of negligence and evidence tampering. In December 2009, the Central Bureau of Investigation (CBI) dismissed allegations of rape and determined that the women had drowned, but the political opposition in the J&K parliament rejected its findings, and rioters again took to the streets in Shopian and Srinagar. Civil society activists, including the Independent Women’s Initiative for Justice, a group comprising lawyers and human rights activists, also challenged the CBI’s conclusions, revealing in the process serious flaws in the investigation, including tampering with evidence that would have indicated rape.³²

B. SOCIAL AND ECONOMIC INDICATORS OF CONFLICT

1. Economy, energy and the environment

Unlike Jammu, the Valley’s main historical trade routes to the west – across AJK and present day Gilgit-Baltistan in Pakistan to Central Asia and beyond – have been cut off by the LOC. “Jammu has never been strangled as we have. Of the five routes connecting it to the rest of the world, only the one to the west has been cut off”, said a Srinagar-based trader.³³ On 11 August 2008, thousands of Kashmiri traders and other demonstrators marched towards the LOC calling for the opening of the road to Muzaffarabad and protesting what they believe is forced economic dependence on India.³⁴

With tight restrictions on foreign investment, the state economy relies heavily on New Delhi. The central government has funded J&K’s entire budget since the *tahrik*’s

²⁶ Crisis Group interview, Srinagar, August 2009.

²⁷ See Crisis Group Report, *Kashmir: The View From Srinagar*, op. cit.

²⁸ Some Kashmiris believe that New Delhi encouraged the Pandits’ displacement to justify its violent crackdown on militancy. Neerja Mattoo, a Kashmiri Pandit, disagreed, arguing: “Had there been any orchestration by India, we would have come to know of it. If anything, the governor at the time did not encourage us to stay. We stayed behind because this is our home, and we’ve always trusted our Muslim neighbours”. Crisis Group interview, Srinagar, August 2009.

²⁹ Crisis Group interviews, Srinagar, August 2009.

³⁰ Crisis Group interview, New Delhi, July 2009.

³¹ Crisis Group Report, *India/Pakistan Relations and Kashmir: Steps Toward Peace*, op. cit.

³² See “Shopian: Manufacturing a Suitable Story, a Case Watch”, Independent Women’s Initiative for Justice, 2009.

³³ Crisis Group interview, Srinagar, August 2009.

³⁴ Similarly, one reason for the violent reactions in Srinagar to the Shri Amarnath shrine land row was the fear of economic isolation, as rioters in Jammu, backed by Hindu right-wing groups, blocked traffic on the Srinagar-Jammu highway, imposing a virtual economic blockade on the Valley.

onset in the late 1980s,³⁵ compared to about 20 per cent funding to other states. Only 20 per cent of New Delhi's current funding to the state government is repayable. This allows Srinagar to maintain loss-making state monopolies, notably in forestry and the textile industry, and to retain an oversized civil bureaucracy. "Much of the state's budget is absorbed by government salaries instead of going to development projects", said a Srinagar-based sociologist.³⁶ A political analyst added: "Money pours into Jammu and Kashmir, but there's no accountability. It is common practice not to pay taxes or electricity bills or even train tickets. The governments at state and central levels are okay with this, because they believe they can buy people's loyalty".³⁷ A small business elite has benefited from close relations with corrupt civil servants and politicians, acquiring government contracts and licenses to exploit state forest resources and receiving preferential treatment in the transport and tourism sectors.³⁸

As a result of land reforms in the 1950s, slums, landlessness and other obvious markers of inequality are relatively rare, but corruption, insecurity and tensions between India and Pakistan have slowed economic growth, particularly in the Valley, which produces a variety of primary agricultural and horticultural products. Due to government monopolies and restrictions on foreign investment and assistance, however, it lacks the capacity to package and market them. Consequently many of the dairy and fruit products sold in Srinagar come from outside the state.³⁹

Although J&K's abundant water resources could generate as much as 15,000 megawatts of power, much needed for a state with the country's largest power deficit,⁴⁰ J&K relies on the central government for generating hydro-electric power, because it lacks funds and expertise. India's National Hydro Power Corporation (NHPC) derives roughly half of its revenue from three power stations in J&K, while giving the state only 12 per cent in royalties, provoking

resentment, amid power outages, against the National Conference-led government that negotiated the deal.⁴¹

Multiple factors stifle economic activity and paralyse businesses, including state-imposed curfews and restrictions on freedom of movement, extortion by militants and separatist-led strikes and demonstrations. "Every Friday after prayer I have to close, because demonstrators throw stones", said a merchant whose shop is in front of Srinagar's historic Jamia Mosque.⁴² "I keep my office in a run-down building because I don't want militants to think I'm rich", added another Srinagar-based trader.⁴³

Although domestic tourism has picked up in recent years, insecurity still deters foreigners from visiting Srinagar. "Hindu pilgrims and Indian tourists just don't spend the kind of money that Westerners do", said the owner of a houseboat on Srinagar's Dal Lake.⁴⁴ With very few foreign tourists visiting, some shopkeepers claimed that their main customers now were soldiers.⁴⁵

The Valley's renowned *pashmina* shawl production has sustained entire households and allowed women to earn a living working from home, but militancy and criminality are undermining the crafts industry. Moreover, the insurgency, drug trade, prostitution and extortion rackets offer disenfranchised youth the opportunity to make easy money, thus enlarging the black economy.

Public sector jobs, once a reliable source of employment, are increasingly limited, and a stagnant state economy has induced many young Kashmiris from the Valley to resettle in India's main economic hubs, where they often face hostile discrimination against Kashmiri Muslims. "Whenever there's a terrorist attack, we're the first ones the police round up", said a young Kashmiri now based in New Delhi.⁴⁶

Even with a return to relative calm in the Valley, frustration, among the youth in particular, will likely remain high unless both Srinagar and New Delhi take comprehensive steps to address the region's political and economic malaise and isolation. This will require ending the reliance on cash handouts and favours, as well as fresh efforts to develop the state's exports, ease restrictions on foreign investment and improve road and rail lines.

³⁵ See Wajahat Habibullah, "The Political Economy of the Kashmir Conflict, Opportunities for Economic Peacebuilding and for U.S. Policy", USIP, special report, June 2004, p. 9.

³⁶ Crisis Group interview, Dr Khurshid al Islam, Entrepreneurship Development Institute, Srinagar, August 2009.

³⁷ Crisis Group interview, Suba Chandran, deputy director, IPCS, New Delhi, August 2009. In 2009, with the commercial taxes department collecting less than half of its target, the state government announced a crackdown on tax evasion and reorganisation of the department.

³⁸ See Habibullah, op. cit., p. 7.

³⁹ "Although livestock and orchards are abundant, the milk and apple juice sold in Srinagar's stores comes from outside the state". Crisis Group interview, Praveen Swami, associate editor, *The Hindu*, New Delhi, July 2009.

⁴⁰ Habibullah, op. cit., pp. 10-11.

⁴¹ See "Renegotiate water pacts with NHPC", *Tribune News Service*, 22 November 2009.

⁴² Crisis Group interview, Srinagar, August 2009.

⁴³ Crisis Group interview, Srinagar, August 2009.

⁴⁴ Crisis Group interview, Srinagar, August 2009.

⁴⁵ Crisis Group interviews, Srinagar, August 2009.

⁴⁶ Crisis Group interview, New Delhi, July 2009.

2. Education and health

J&K is the only Indian state that provides free education at all levels. However, despite relatively high government spending on education, only 54 per cent of the population is literate compared to 65 per cent nationwide.⁴⁷ Curfews, civil strikes and outbreaks of violence continue to take their toll on the school system, forcing many institutions to shut down, even if temporarily.⁴⁸ “Whenever there are anti-India demonstrations, if we continue to have class, demonstrators come to the university and throw stones at the windows”, said a university student in Srinagar.⁴⁹ The valley’s academic institutions have particularly suffered from the Pandits’ displacement, since many schoolteachers and professors were Kashmiri Hindus. Today, the products of a broken education system in J&K struggle in an increasingly competitive job market.

Mismanagement, insecurity and violence have similarly affected healthcare. Many medical units are rundown and unable to provide adequate assistance. In June 2009, the state government pledged to overhaul the system by opening two medical institutes in Srinagar and Jammu, improving district hospitals and prioritising more isolated and mountainous areas. The state, however, faces a severe shortage of medical personnel, ranging from nurses and midwives to specialists. Foreign-trained health professionals, including from the Kashmiri diaspora, could contribute significantly to meeting the needs of a violence-ridden population with dramatically high rates of suicide, psychological disorders and substance abuse. While the number of psychiatric units in the cities is inadequate, the problem is even more acute in rural areas, where residents seldom have access to specialised medical facilities. But having fled conflict in the Valley, Kashmiri doctors are unlikely to return, and fresh graduates are likely to keep migrating out, without higher pay and benefits and meaningful security guarantees.

⁴⁷ Government spending in education is estimated at 6 per cent of the state’s GDP compared to a national average of 4 per cent.

⁴⁸ Over half the 828 schools destroyed in the 1990s at the height of the insurgency have been rebuilt. Jammu and Kashmir government website at jammukashmir.nic.in/govt/edu.htm.

⁴⁹ Crisis Group interview, Kashmir University student, Srinagar, August 2009.

IV. AZAD JAMMU AND KASHMIR

A. CONSTITUTIONAL RIGHTS, CONFLICT AND SECURITY

Officially, Pakistan maintains that Azad Jammu and Kashmir is not intrinsically part of its territory and that its constitutional status is provisional, dependent upon a final settlement of the territorial dispute with India. Indeed, with its own constitution and elected government, AJK has the trappings of a sovereign state, but it is only nominally independent. The territory has no international legal status, leaving Pakistan a free hand in controlling its foreign affairs. The Azad Jammu and Kashmir Council, headed by Pakistan’s prime minister, ostensibly controls decision-making, while the ministry of Kashmir Affairs & Northern Areas & States & Frontier Regions exercises supervisory control. The Council can override laws passed by the AJK assembly; its decisions are not subject to judicial review, even by AJK’s Supreme Court; and Islamabad can dismiss Muzaffarabad’s legislature.

In reality, given the military’s control over AJK and Kashmir policy more generally, civilian governments, whether at the centre or in Muzaffarabad, have little influence or authority. According to Human Rights Watch, the army’s Murree corps commander “is known to summon the Azad Kashmir prime minister, president and other government officials regularly to outline the military’s views on all political and governance issues in the territory”.⁵⁰ A Kashmiri journalist stressed: “Changes in government don’t change anything for us: the army rules here”.⁵¹

With Muzaffarabad dependent on Islamabad’s authorisation, political debate is sterile, and political parties largely sidestep questions of AJK’s autonomy. “Our leaders never speak out. When asked what they want, they turn to Pakistan and say ‘you know best’”, said a senior Kashmiri civil servant.⁵² Pakistan’s civil and military bureaucracy rewards such compliance by granting privileges and distributing funds. AJK’s political elites owe their success not to their ability to respond to public needs, but to their preferential access to federal funds, which are then channelled to their own *baraderi* (ethnic and kinship groups) and other allies.

⁵⁰ “With Friends Like These: Human Rights Violations in Azad Kashmir”, Human Rights Watch, September 2006. Located near Islamabad, Murree is a hill town and an army garrison.

⁵¹ Crisis Group interview, Muzaffarabad, July 2009.

⁵² Crisis Group interview, Muzaffarabad, July 2009.

The ban on political parties that do not support Jammu and Kashmir's accession to Pakistan has in effect silenced all kinds of dissent, including demands for greater transparency and accountability.⁵³ Pro-independence parties, such as Amanullah Khan's Jammu and Kashmir Liberation Front (JKLF), may attempt to retain popular support by stressing Kashmiri rights and denouncing abuses by Indian security forces on the other side of the LOC, but they cannot participate in elections. Those who condemn Islamabad's political impositions are threatened, denied travel documents and even jailed and tortured.⁵⁴

Kashmiris who fled to AJK during the government crackdown in India-administered Kashmir in the early 1990s are also discriminated against.⁵⁵ While their arrival initially reinforced Pakistan's case against New Delhi, many, including JKLF and other pro-independence activists, did not support Kashmir's accession to Pakistan and were soon regarded with suspicion. Denied full freedom, some were even accused of being Indian spies.

Since Pakistani intelligence agencies maintain tight control over reporting from AJK, human rights abuses often go underreported. Foreigners, including journalists, must obtain a No-Objection Certificate (NOC) from Islamabad before entering the territory. While restrictions on the foreign media were eased following the October 2005 earthquake, this was short-lived. International news networks, therefore, depend on local journalists, who are far more vulnerable to official pressure. "We cannot say what we want; our articles only appear in local editions, and even then they're checked by Islamabad", said a Muzaffarabad-based journalist.⁵⁶

The military has manipulated, if not hijacked, Kashmir's independence movement by supporting Sunni jihadi proxies, such as the Hizb-ul Mujahidin, LeT and Jaish-e-Mohammad that have reframed Kashmiri resistance as a Muslim liberation movement from Hindu rule.⁵⁷ This

strategy continued under General Musharraf, even as his government pursued dialogue with New Delhi. One of the most active of these jihadi outfits, LeT, though banned in 2002, was allowed to resurface under a new name, Jamaat-ud-Dawa (JD).⁵⁸ In the aftermath of the October 2005 earthquake, the Musharraf government channelled funds to its charity wings, allowing it and other extremist groups to expand their political space in AJK.⁵⁹

Following the November 2008 Mumbai attacks, the civilian government either closed or took over the LeT/JD's offices in AJK and in the Pakistani heartland, including its headquarters in Muridke, Punjab.⁶⁰ The group has, however, resumed its activities in AJK, and along with the like-minded Jaish-e-Mohammad and Hizb-ul Mujahidin, also continues major recruitment drives in central Punjab.⁶¹ In its new compound in Dulai, 17km outside Muzaffarabad, the JD claims to focus on welfare activities, but according to a local villager, "they told me they are not interested in creating a law and order problem within the country. Their only mission, they said, is to wage jihad against India".⁶²

Not surprisingly given the links between sectarian, regional and international jihadi groups, Kashmir-based militancy has also turned inward. Since AJK's first-ever suicide bombing on 26 June 2009, there have been five such incidents, including against Shias and military installations and personnel. Three attacks occurred in quick succession between December 2009 and January 2010.⁶³

⁵³ Pakistani bureaucrats hold all key administrative positions in AJK; Kashmiris who do not support accession to Pakistan are not just barred from contesting elections but also from holding government jobs.

⁵⁴ Crisis Group interviews, Amanullah Khan, Jammu & Kashmir Liberation Front, Rawalpindi, 21 July 2009; Press for Peace activists, Islamabad, October 2009. See also "With Friends Like These", op. cit.

⁵⁵ According to the Azad Kashmir Rehabilitation Department, there were 29,932 registered refugees from J&K between 1989 and 1991. According to Human Rights Watch, there may be as many as 5,000 unregistered refugees. See "With Friends Like These", op. cit., p. 62.

⁵⁶ Crisis Group interview, Muzaffarabad, July 2009.

⁵⁷ Pakistan's military initially supported the Jammu and Kashmir Liberation Front (JKLF) but soon turned away from an organisation whose objective of a secular and independent Kash-

mir differed from its own institutional preferences. Instead the army provided covert military assistance to radical Islamist outfits. See Crisis Group Report, *Kashmir: The View From Islamabad*, op. cit.

⁵⁸ The JD portrays itself as an Islamic relief and charity organisation.

⁵⁹ With the military controlling the relief process and supporting Islamic charity groups, international relief organisations worked alongside and even sometimes with groups affiliated with banned jihadi outfits. See Crisis Group Asia Briefing N°46, *Pakistan: Political Impact of the Earthquake*, 15 March 2006.

⁶⁰ The government also closed down a number of madrassas and extremist websites and arrested suspected militants. See Crisis Group Asia Report N°164, *Pakistan: The Militant Jihadi Challenge*, 13 March 2009.

⁶¹ See Moosa Kaleem, "Three steps to jihad", *Herald*, February 2010.

⁶² Moosa Kaleem, "Reappearing act", *Herald*, December 2009.

⁶³ For more analysis on these links, see Crisis Group Report, *Pakistan: The Militant Jihadi Challenge*, op. cit.; also Amir Mir, "Lashkar-e-Zil behind Azad Kashmir suicide hits", *The News*, 11 January 2010.

B. SOCIAL AND ECONOMIC INDICATORS OF CONFLICT

1. Economy, energy and the environment

Uncertain climate

With tax collection, custom duties and the banking system falling under the Kashmir Council's jurisdiction, Islamabad collects AJK's tax revenue before channelling it back to its government.⁶⁴ This includes state taxes and AJK's share in federal taxes and royalties received for the Mangla Dam.⁶⁵ The federal government finances AJK's annual budget deficits and determines spending priorities. For instance, AJK's information minister disclosed that the federal finance ministry cut the development budget by 45 per cent in fiscal year 2009-2010.⁶⁶

Since AJK lacks a recognised international legal status, Islamabad negotiates all its loans with foreign financial institutions. Similarly, the federal government acts as guarantor when international consortiums invest in infrastructure development or hydroelectric power generation projects. According to an Islamabad-based Asian Development Bank (ADB) official, "our relationship with AJK is not very different from the one we have with other provinces in Pakistan. The federal government takes the loan and transfers the money to AJK as a grant, making AJK dependent on Islamabad for its development budget".⁶⁷ Said a senior civil servant in Muzaffarabad, "Islamabad controls us through our finances, because it is well aware that we cannot survive without its financial support".⁶⁸

AJK communities rely significantly on migration – within Pakistan and abroad – to supplement household incomes.⁶⁹ Kashmiris from the southern Mirpur district have been migrating to the UK for over a century, and a significant proportion of Pakistan's labour migrants to the oil-rich Gulf States are originally from AJK.⁷⁰ While Kashmiri labour migration is nothing new, population growth and the lack of local livelihood opportunities have increased

households' reliance on remittances.⁷¹ Many returned to Kashmir after the 2005 earthquake to tend for their families, but outward migration has since resumed. Moreover, many of those displaced by the earthquake have moved to Pakistan's urban centres as labourers.

The economy is particularly constrained by the territory's size and mountainous topography. Only 13 per cent is cultivated, yet 88 per cent of the 3.7 million inhabitants live in rural areas.⁷² While landlessness is rare, productivity is limited by small holdings, mostly one to two acres, extensive use, soil erosion and damage to the traditional irrigation system from the 2005 earthquake.

While almost half of AJK was forested before 1947, forests now cover only roughly 12 per cent of the territory.⁷³ Population growth has certainly contributed to this, given the widespread use of wood by rural communities for cooking, heating and construction. However, the main threats to the trees are commercial harvesting and, more importantly, rampant corruption that has led to a thriving "timber mafia", according to a human rights activist, which comprises "a vast network that includes land officers, senior bureaucrats and politicians from all mainstream political parties".⁷⁴ With the local administration's support, many members of this network occupy vast tracts of land, felling prized woods such as walnut and cedar that are smuggled out of AJK. Although the AJK banned green-tree felling in 1997, this has gone unobserved. Cutting down trees to use as fuel in their camps, soldiers as well as militants gain financially from timber harvesting, intimidating or bribing forestry officials, with Muzaffarabad apparently powerless to intervene.⁷⁵

Deteriorating infrastructure acts as a disincentive for investors, and industrial development stagnates as a result. Tensions with India, Islamabad's restrictions on access to AJK, the territory's uncertain constitutional status and rampant corruption have also strangled investment and economic activity more broadly.⁷⁶ For example, the entry

⁶⁴ However, taxes collected at the municipal level are spent directly in the areas where they are collected.

⁶⁵ Mangla Dam was built in 1967 to help meet Pakistan's growing energy needs. It submerged 280 villages and the towns of Mirpur and Dadyal and displaced over 110,000 people.

⁶⁶ See "AJK minister calls for financial succor", *Dawn*, 2 April 2010.

⁶⁷ Crisis Group interview, Islamabad, 17 July 2009.

⁶⁸ Crisis Group interview, Muzaffarabad, July 2009.

⁶⁹ Crisis Group interviews, families from Bagh, Mirpur and Muzaffarabad, January 2010.

⁷⁰ See Roger Ballard, "The Kashmir Crisis: A View from Mirpur", *Economic and Political Weekly*, 1991, pp. 513-517.

⁷¹ According to a 2006 report by the Humanitarian Policy Group of the Overseas Development Institute, a UK-based think tank, a quarter of all households in a Muzaffarabad village and over a third in a Bagh district village relied on remittances as their primary source of income. See Abid Qaiyum Suleri and Kevin Savage, "Remittances in crises: a case study from Pakistan", Humanitarian Policy Group, November 2006.

⁷² "AJK at a Glance 2008", AJK planning and development department.

⁷³ Crisis Group interview, Raja Abbas, director, general environment, AJK government, Muzaffarabad, 9 July 2009.

⁷⁴ Crisis Group interview, Press for Peace activist, Islamabad, October 2009.

⁷⁵ Crisis Group interview, senior government official, Muzaffarabad, July 2009.

⁷⁶ Crisis Group interviews, Islamabad, October 2009.

permit requirement deters foreign tourists. The influx of international aid organisations after the 2005 earthquake temporarily revived the service sector, as hotels, guest-houses and restaurants catered to their staff. To some extent, this international presence eased AJK's isolation. The territory now has vastly improved telecommunications, including access to mobile phones and internet access. As a local NGO worker said, "at least now people can place Kashmir on the map".⁷⁷ Four years after the earthquake, with very few international organisations still working in AJK, however, that economic revival has shown itself to be brief and unsustainable.

The international presence, moreover, gave Islamist hardliners an opportunity to condemn local as well as international NGOs as immoral and exploitive and to impose stricter social practices, such as curtailing women's movement. The flood of foreign funding also distorted the local economy: "After the earthquake, wages multiplied by [a factor of] five, because qualified local personnel were difficult to find, and rents increased, because so few houses were left standing", said the director general of the state's Earthquake Reconstruction and Rehabilitation Agency (SERRA).⁷⁸ Nevertheless, he argued, "international organisations have raised people's expectations", and AJK residents "will now demand that their government give them development and sustainable infrastructure".⁷⁹ But this process will have to be led by the political administration rather than the military-dominated SERRA if it is to be responsive to public needs.

While Islamabad should transfer greater economic decision-making and revenue authority to it, the AJK government must crack down on tax evasion and corruption. It should also invest in modern technology and renewable energy to improve agricultural productivity and develop its service sector, thus reducing reliance on scarce land and depletion of natural resources.

Water and energy

AJK's water resources are critical to Pakistan's irrigation and electricity supply, but its hydroelectric potential is under-utilised. "We have a potential of 17,000 megawatts, but today we produce only 34 megawatts, which means that we have to buy 92 per cent of our energy from Pakistan", said the electricity department's director general.⁸⁰ In 2003, the AJK government and Pakistan's Water

and Power Development Authority (WAPDA) agreed to raise the level of Mangla Dam by 30 feet, and Muzaffarabad has started receiving royalties.⁸¹ WAPDA, however, pays it less than one-fourth of the royalty rate per unit in Punjab and Khyber-Pakhtunkhwa,⁸² according to the AJK information minister.⁸³

A number of projects to increase hydroelectric energy production have been identified, but owing to the high costs, their development depends on federal and international funding. The projects also have a potentially high environmental cost. The Neelum/Jhelum project, for instance, will divert the Neelum River into the Jhelum River through a 36km tunnel, leaving only 3 per cent of the current water flow during the winter months. AJK's energy department argues that the environmental cost will be negligible, since the project is to displace only 375 households,⁸⁴ but local authorities concerned with environmental preservation believe that a water flow below 15 per cent would have a devastating impact on the river's ecosystem and the communities that rely on it.⁸⁵

Tensions between Pakistan and India have also constrained power generation and electricity supply. For example, during the 1999 Kargil conflict, the AJK Hydroelectric Board temporarily halted construction of a project in Jagran due to its proximity to the LOC. The power grid has also had to circumvent military camps and restricted areas all over AJK, again raising costs.

Abundant as they may be, AJK's water resources are increasingly polluted. After the earthquake, there was an opportunity to develop renewable sources of energy, but it was largely lost because "the focus at the time was on reconstruction, not development", according to an Islamabad-based ADB official.⁸⁶ AJK's energy department plans to distribute solar panels to households in remote areas as

ate hydroelectric power at 5,000 megawatts. See Teresita C. Schaffer, "Kashmir: The Economics of Peace Building", Center for Strategic and International Studies (CSIS), December 2005.

⁸¹ Compensation for AJK includes royalties from WAPDA and resettlement of the 8,023 affected households. On 5 January 2010, President Asif Ali Zardari inaugurated the project, but affected families are still awaiting compensation. See "Agreement for Raising of the Mangla Dam", Mangla Dam Raising Project Resettlement Organisation, Government of Azad Jammu and Kashmir. www.ajkmdrp.gov.pk.

⁸² With the passage of the eighteenth constitutional amendment in April 2010, Northwest Frontier Province was renamed Khyber-Pakhtunkhwa.

⁸³ See "AJK minister calls for financial succor", *op. cit.*

⁸⁴ Crisis Group interview, Muhammad Iqbal Ratyal, director general, AJK electricity department, Muzaffarabad, 9 July 2009.

⁸⁵ Crisis Group interview, Raja Abbas, AJK director of general environment, Muzaffarabad, 9 July 2009.

⁸⁶ Crisis Group interview, Islamabad, 17 July 2009.

⁷⁷ Crisis Group interview, Muzaffarabad, July 2009.

⁷⁸ Crisis Group interview, Dr Syed Asif Hussain, Muzaffarabad, 10 July 2009. The state's Earthquake Reconstruction and Rehabilitation Agency (SERRA) is the AJK branch of the federal Earthquake Reconstruction and Rehabilitation Agency (ERRA).

⁷⁹ *Ibid.*

⁸⁰ Crisis Group interview, Muhammad Iqbal Ratyal, Muzaffarabad, July 2009. A 2005 report placed AJK's potential to gener-

part of a drive to provide electricity to all residents by June 2010.⁸⁷ This initiative will have limited impact, however, unless the central and state governments prioritise and donors support the development of such renewable energy sources.

2. Education and health

According to the AJK government, the literacy rate is 64 per cent, significantly higher than the Pakistani average of 45 per cent.⁸⁸ Primary school enrolment rates are 95 per cent for boys and 88 per cent for girls,⁸⁹ compared to the Pakistani average of 94 per cent and 73 per cent, respectively.⁹⁰ As in Pakistan generally, however, the lack of trained staff and facilities, particularly in remote rural areas, has impaired the quality of education.

Donor funding for rehabilitation and reconstruction has provided an opportunity to boost the education sector. In addition to rebuilding destroyed infrastructure, a number of development projects have focused on teacher training and improving girls' access to primary education. But while new and often bigger educational institutions are being constructed, the pool of trained teachers and other staff remains limited. "When a school had one classroom before the earthquake, now it has five, and we're being asked for more teachers", said Dr Sheila Waqar, additional finance secretary in Muzaffarabad.⁹¹ Of the state's 2,819 primary schools, 1,613 have only half the teachers they require.⁹²

The earthquake, moreover, gave jihadi groups and associated Islamist organisations new opportunities for engaging AJK's youth. By 2006, the Deobandi Wafaqul Madaris Al-Arabiya, Pakistan's largest union of madrasas (religious seminaries), had accumulated funds to build 1,500 mosques and 300 madrasas in earthquake-affected zones. Unregulated seminaries and mosques remain the primary avenues for militant recruitment.⁹³ "The first thing these groups do when they come to a village is to open a mosque and madrasa, and, although they don't have much of a local base,

when there's no one else to turn to, people do send their children to them", said a Bagh district resident.⁹⁴

Health care is similarly deficient. AJK's population per bed is 2,006, compared to 1,508 in Pakistan⁹⁵ (and 868 in J&K).⁹⁶ Similarly, with a population per doctor of 5,959, AJK lags far behind Pakistan (1,225)⁹⁷ and J&K (1,400).⁹⁸ The army is a major player in the health sector, running three hospitals; along the LOC, the military often provides the only medical facilities available.⁹⁹ This does not guarantee efficient and indiscriminate delivery. In the immediate aftermath of the earthquake, for instance, when many lives could have been saved, army camps in the vicinity at first catered to their own instead of assisting the civilian population.¹⁰⁰

Earthquake relief efforts included some major steps, such as a new hospital in Muzaffarabad funded by the United Arab Emirates (UAE) and an orthopaedic centre run by the International Committee of the Red Cross (ICRC). The lack of trained personnel and the absence of mobile units to provide prevention and care, particularly in remote areas, however, means that rural residents must still travel long distances to urban centres for medical care. Those who can afford to often prefer to seek help in Islamabad, Lahore or other major Pakistani cities.

⁸⁷ Crisis Group interview, Muhammad Iqbal Ratyal, director general, AJK electricity department, Muzaffarabad, 9 July 2009.
⁸⁸ "AJK at a Glance 2008", op. cit.

⁸⁹ Ibid.

⁹⁰ "Pakistan at a Glance", World Bank, 24 September 2008, http://devdata.worldbank.org/AAG/pak_aag.pdf.

⁹¹ Crisis Group interview, Muzaffarabad, 8 July 2009.

⁹² See AJK Prime Minister Secretariat website, education department: www.pmajk.gov.pk/education_department.asp.

⁹³ See Crisis Group Asia Reports, N°95, *The State of Sectarianism in Pakistan*, 18 April 2005; and *Pakistan: The Militant Jihadi Challenge*, op. cit.

⁹⁴ Crisis Group interview, Islamabad, October 2009. 586 of Pakistan's 13,000 madrasas are reported to be in AJK. "National Census of Education 2005", Pakistan education ministry. Actual figures may, however, be much higher, considering the number of unregistered seminaries. See also Crisis Group Reports N°49, *Pakistan: The Mullahs and the Military*, 20 March 2003; and N°36, *Pakistan: Madrasas, Extremism and the Military*, 29 July 2002.

⁹⁵ "Vision Health 2009-2010", AJK planning and development department, www.pndajk.gov.pk.

⁹⁶ "National Human Development Report 2001", Planning Commission, Government of India, p. 259, <http://planningcommission.nic.in>.

⁹⁷ "Vision Health 2009-2010", op. cit.

⁹⁸ "Development of Jammu and Kashmir: Growth Generating Initiatives", Report of the Task Force on Development of Jammu and Kashmir, Government of India, November 2006, p. 32.

⁹⁹ See AJK government website, health department, www.ajk.gov.pk.

¹⁰⁰ See Crisis Group Briefing, *Pakistan: Political Impact of the Earthquake*, op. cit.

V. CROSS-LOC CBMS: EMPOWERING KASHMIRIS

A. DEVELOPING CROSS-LOC INTERACTION

Kashmir-specific CBMs have yet to contribute in any meaningful way to improving the lives of the peoples of the divided territory, because they are still too closely intertwined with India-Pakistan bilateral relations, and the governments of J&K and AJK regard each other as little more than puppet regimes.¹⁰¹ Nor can they provide compelling incentives for long-term peace, unless India and Pakistan move beyond their rhetoric to strengthen Kashmiris' ownership of the process.

If cross-LOC interaction is to be meaningful, India and Pakistan should agree on improvements in the existing CBMs, accompanied by the identification of additional measures in the following areas:

Travel regime. Cross-LOC travel eligibility should be expanded to include all citizens of J&K and AJK. The permit application process should be relaxed and expedited, allowing multiple-entry, long-term permits that are renewable every two to three years. Indian and Pakistani military intelligence agencies should have no role in the processing of applications.

Communication. New Delhi should recognise that the benefits of reducing the Valley's isolation, such as by granting J&K access to international telephone dialling, would outweigh the perceived security risks. Srinagar and Muzaffarabad should also consider developing an intra-Kashmir postal service.

Environmental preservation and natural disaster response. J&K and AJK face similar environmental challenges, such as deforestation, land erosion, pollution of fresh water sources, rising temperatures and insufficient rainfall. They should collaborate by sharing information and devising a common agenda on environmental preservation and waste and forest and water management. In a region particularly prone to seismic events, a joint framework on natural disaster response is also critical. After the October 2005 earthquake, for example, many lives could have been saved in AJK's hardest hit and remote areas had villagers been allowed to seek relief assistance across the LOC.¹⁰² A comprehensive common approach would also bolster the legitimacy of both Muzaffarabad and Srinagar by demonstrating their greater

ability to protect citizens and, in AJK's case, by preventing jihadi groups from stepping into the breach.

Donors should also contribute to improving intra-Kashmir ties. When the composite dialogue began in 2004, the Asia Development Bank planned to provide infrastructure support for CBM implementation and for devising Kashmir-related joint programs between its Islamabad and New Delhi offices. The focus on earthquake reconstruction and, subsequently, tensions between India and Pakistan, put these projects on hold.¹⁰³ Such initiatives should be revived without delay. The international community should, to the extent feasible, make a concerted push to promote cross-LOC interactions and programs precisely when tensions increase, instead of shutting them down.

B. OBSTACLES TO TRADE

While the launch of cross-LOC trade is promising, the Indian and Pakistani governments still control it too tightly. Moreover, since the stakeholders were not adequately consulted in developing the terms, it has yet to tangibly benefit the Kashmiri economies.

Some items on the list of tradable items are of questionable value, since they are produced on both sides and often locally available at cheaper prices. Domestic markets are frequently more lucrative, not least since unloading shipments at the LOC increases the transportation costs. Some products are also occasionally removed from the list unilaterally and without prior notice, in contravention of the agreed modalities. For example, in 2009 India removed garlic and dates and Pakistan removed lentils from the list of tradable goods.¹⁰⁴ "Whenever we start making profit, either this side or the other bans the product. The message we're getting is clear: our governments don't want this trade to flourish", said Abid Mughal, president of the Jhelum Valley intra-Kashmir trade union.¹⁰⁵ The Joint Working Group on Cross-LoC CBMs, originally due to meet every three months, would provide a dispute

¹⁰¹ Crisis Group interviews, AJK and J&K government officials, Muzaffarabad and Srinagar, July-August 2009.

¹⁰² Crisis Group Briefing, *Pakistan: Political Impact of the Earthquake*, op. cit.

¹⁰³ Crisis Group interview, Mian S. Shafi, senior project implementation officer, Asian Development Bank, Islamabad, 17 July 2009.

¹⁰⁴ Indian authorities refused garlic shipments citing fears of pest contamination, while Islamabad banned lentil exports because of domestic shortages and price hikes. Crisis Group phone interview, Abid Mughal, president, Jhelum Valley intra-Kashmir trade union, 28 January 2010; Crisis Group interview, Dr Shaheen Akhtar, senior research fellow, Institute of Regional Studies, Islamabad, 1 February 2010.

¹⁰⁵ Crisis Group telephone interview, Islamabad, 28 January 2010.

resolution forum for exactly these kinds of issues but became inoperative after the Mumbai attacks.¹⁰⁶

Due to the rigid travel regime, the joint Kashmiri chamber of commerce and industry, mentioned above, has not met since its inception and remains a largely symbolic entity.¹⁰⁷ The restrictions on cross-LOC communication, moreover, limit traders' access to price and market information and generally impede negotiations. In the absence of access to international dialling, for instance, J&K traders can receive calls from AJK but cannot return them.

Most cross-LOC trade is conducted between members of divided families or with a trader's relative on the other side serving as a guarantor. According to an Islamabad-based researcher, "more than 80 per cent of traders involved in this trade have blood relations across the LOC".¹⁰⁸ Kinship ties have enabled traders to circumvent barriers on monetary transactions; for example, relatives in a third country, commonly the UAE, facilitate transfers between J&K and AJK. Yet, the absence of a formal financial system remains the principal obstacle to broadening trade.

Banks do not have branches on the other side, and traders are not allowed to conduct transactions in local currencies, thus reducing trade to a barter exercise, with goods sent across the LOC for a shipment of comparable value. Without a common currency on which to index prices, the value of goods exchanged is vague and open to differing calculations. A few weeks after trade started, for instance, J&K fruit growers threatened to suspend shipments because they believed AJK counterparts had undervalued their products.

"Instead of being a step towards peace, cross-LOC trade has become a source of conflict", said a financial analyst in J&K.¹⁰⁹ An AJK government official, however, argued: "This CBM may not serve any economic purpose for now, but as we interact, checking each other's trucks and exchanging goods, we gradually start trusting each other".¹¹⁰

¹⁰⁶ "My counterpart and I could resolve these disputes, but the two countries have to meet first and work out these trade modalities so that trade-related issues can be solved on the ground. India is just pretending it wants to liberalise cross-LOC trade. If it really did, it would meet with us and stop linking dialogue with Pakistan cracking down on terrorism". Crisis Group telephone interview, Brigadier (ret.) Muhammad Ismail, Pakistan's director general of travel and trade, 25 March 2010.

¹⁰⁷ Tensions within J&K have also hindered the joint body's effectiveness. Disagreeing on the range of trade-related issues, the Jammu and Srinagar chambers of commerce met separately with the AJK delegation.

¹⁰⁸ Akhtar, op. cit., p. 3.

¹⁰⁹ Crisis Group interview, Srinagar, August 2009.

¹¹⁰ Crisis Group interview, Muzaffarabad, July 2009.

C. IMPROVING TRADE

Islamabad and New Delhi would significantly ease cross-LOC transactions if they implemented the recommendations of the joint chamber of commerce and industry, in addition to strengthening its role in protecting traders' interests and resolving disputes. These include: expanding the list of tradable items; enabling traders to cross the LOC to explore each other's markets; and indexing product prices to the U.S. dollar to avoid conflict over the value of goods. Costs of trade could be reduced by equipping transit points with x-ray machines and sniffer dogs to inspect consignments, eliminating the need to unload them. Local transporters, designated by the joint chamber, could be given security clearances to operate this trade.

Intra-Kashmir trade will only be sustainable if it goes beyond mere barter and fosters strong economic cooperation that is not based solely on family ties. Allowing the state banks of J&K and AJK to open branches in Muzaffarabad and Srinagar respectively would facilitate transactions and increase transparency by reducing reliance on informal and often dubious mechanisms to transfer funds. Intra-Kashmir commerce and the local economies of J&K and AJK would also be strengthened if Kashmiri businesses were able to invest across the LOC, whether individually or in joint ventures. By partnering to organise tours across the LOC, for instance, AJK's underdeveloped tourism sector could get a needed boost from J&K operators, who in turn could expand their business by offering tourists access to both parts of the divided state. This would also help revive handicraft production, particularly in AJK, where the sector has suffered from a lack of marketing opportunities.¹¹¹

In the long term, larger markets than J&K and AJK are required. Islamabad and New Delhi should open theirs to Kashmiri goods across the LOC and allow them transit to international markets.¹¹² This would also promote increased trade between India and Pakistan more generally.

¹¹¹ For example, a local NGO, the Muzaffarabad-based Jammu and Kashmir Development Foundation, created after the earthquake, has struggled to find artisans in AJK to train women in handicraft production and wants to collaborate with artisans from J&K. Crisis Group interview, Faisal Mir, president, and Farruck Mir, project director, J&K Development Foundation, Muzaffarabad, 9 July 2009.

¹¹² See for instance, Moeed Yusuf, op. cit.

VI. CONCLUSION

Cross-LOC CBMs have had limited impact because of India's and Pakistan's reluctance to devolve decision-making to Kashmiris. The communications, trade and travel regimes should be revised with input from stakeholders in AJK and J&K to ensure that they are sustainable and responsive to local demands. Without Kashmiri ownership of the CBMs and control in implementing them, any gains will easily be reversed whenever India-Pakistan relations take a turn for the worse.

If these measures are to produce strong constituencies for peace, the governments of J&K and AJK must be granted political and administrative autonomy, not only to allow more interaction and commerce across the LOC but also to address their constituents' needs and grievances by expanding educational and economic opportunities and broadening political participation.

J&K's public has grown increasingly weary of violence as a means to achieve constitutionally-guaranteed state autonomy. But repressive laws, the Indian military presence and human rights violations by security personnel are perpetuating popular alienation that extremists could again exploit. The J&K government, long regarded as a corrupt puppet, must demonstrate that it is both willing and capable of addressing longstanding public grievances. It must also develop a political agenda that reflects Jammu and Ladakh's interests as much as those of the Valley. New Delhi should ensure that all three components of J&K are on board in any Kashmir-based dialogue. It must similarly engage all Kashmiri stakeholders, including separatist hardliners who agree to participate peacefully in the political process. The Pakistani government, too, should allow parties from across the political spectrum, including those that reject Kashmir's accession to Pakistan, to contest elections and take part in any future Kashmir-specific dialogue.

Pakistan's democratic transition does not as yet mean that its elected officials have wrested control over Kashmir or counter-terrorism policy from the military. Still backed by the army, Pakistan-based jihadi groups remain the major obstacle to the civilian government's desire to normalise relations with its neighbour and could again derail any efforts at peace. Another Mumbai-like attack would have a devastating impact on bilateral relations and could conceivably bring the nuclear-armed neighbours to the brink of war. Moreover, the militants pose an equal threat to the Pakistani state and its citizens. As long as the military's counter-insurgency and counter-terrorism efforts continue to distinguish between internal extremists on the one hand, and Kashmir- and Afghanistan-oriented groups on the other, they will jeopardise prospects not only for peace with India, but also for peace and stability at home.

Even if India is persuaded to resume the composite dialogue, it is unrealistic to expect a solution to the Kashmir dispute in the near future. Both governments should instead focus on creating a favourable environment for cooperation, not just between New Delhi and Islamabad but also between Srinagar and Muzafarabad, where decades of tension and unrest have created distrust and caused each to view the other as illegitimate. More trade, communication and people-to-people contact may help foster better relations between the AJK and J&K governments. If sustained, this process could also help create awareness that they, and their constituents, would stand to gain by joining forces to ensure that Kashmiris' political and economic advancement is no longer of secondary concern in any future dialogue between New Delhi and Islamabad.

Islamabad/Brussels, 3 June 2010