

Investments for Peace in Kashmir

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Introduction

The conflict over Kashmir has lasted over 50 years and has cost more than 100,000 Indian and Pakistani lives, not to mention the extravagant waste in defense expenditure for both countries. Though there seems to be no political resolution in sight, this paper aims to propose an economic viewpoint on how investments for peace can be made in Kashmir. Economic development should be on the fore burner of any peace initiatives undertaken by either countries or third parties.

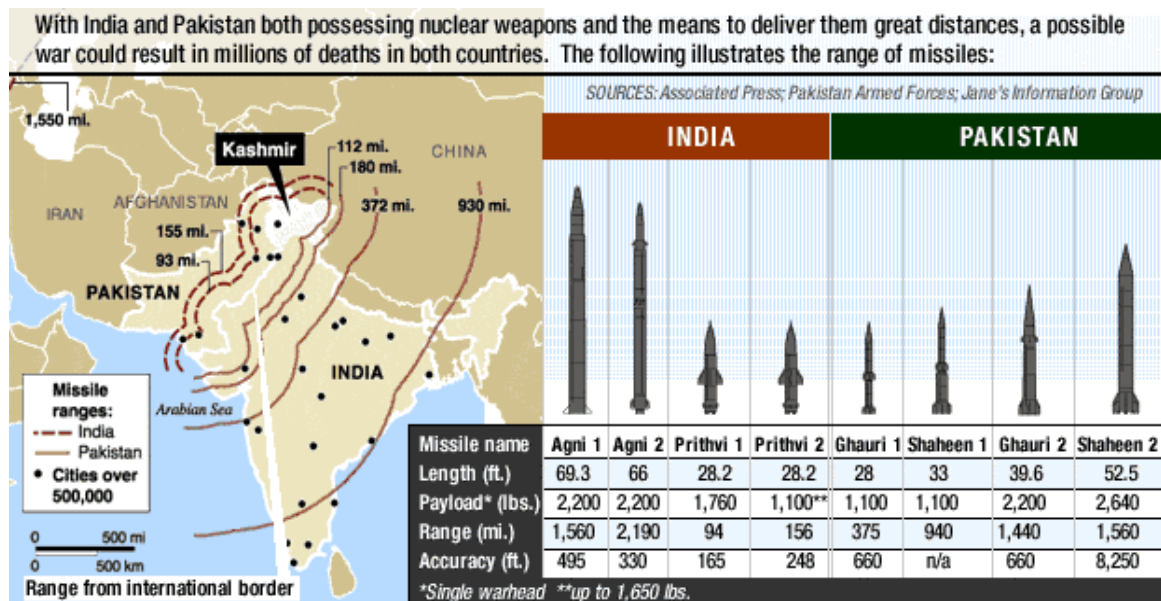
We do not want to get into political debate over the current situation in Kashmir, but rather identify certain sectors and instruments that can be utilized to bring about economic progress and, ultimately, peace to the region. A substantial effort needs to be undertaken to mobilize and fund the agricultural and handicraft industries of the rural population. We feel that this could be done best by employing the methods of micro-credit financing. At the same time, long term investment need to be aimed towards providing excellent infrastructure and education that would help the Kashmiri population for years to come. Finally, tourism is a specific industry that needs to be developed to exploit the beauty of the state and to promote Kashmir as a popular destination for global travelers.

Political Background

Jammu and Kashmir came into being as a single political and geographical entity following the Treaty of Amristar between the British Government and Maharaja Gulab Singh signed on March 16, 1846.¹ Jammu and Kashmir was one of the 565 princely states

of India over which the British rule finally ended on August 15, 1947.ⁱⁱ The rulers of the princely states were given an option to join one of the two new dominions: India or Pakistan. Maharaja Hari Singh of Kashmir was the Hindu ruler of a predominantly (two-thirds of the population) Muslim Kashmir. He delayed his decision until after the date of independence asking the two states to sign a standstill agreement. Singh soon accused Pakistan of sending insurgents into Kashmir, and of strangling the state economically by blocking supplies of food and petrol. Kashmir believed that their political autonomy would be better protected in a secular and democratic India than a theocratic and feudal Pakistan. India promised Kashmir special status and by October, Singh had announced his decision to join India. Indian troops were sent to protect Kashmir, and by May 1948 the tensions of conflict had increased and Pakistani troops were sent into the province starting the first war between the two nations.ⁱⁱⁱ Both countries appealed to the United Nations, and a peacekeeping force was deployed. On January 1, 1949 a ceasefire line was agreed upon by both nations, which is now known as the Line of Control (LOC). The two countries went to war again in 1965 after Pakistan launched a covert offensive across the ceasefire line into the Indian-administered section of Jammu and Kashmir. After three weeks, both India and Pakistan agreed to a UN-sponsored ceasefire. In January 1966, the governments of India and Pakistan met at Tashkent and signed a declaration declaring their commitment to solve their disputes through peaceful means.

Indian counterargument is that under the Simla Agreement of 1972 both countries agreed that the Kashmir issue should be resolved with the help of bilateral negotiations and not through international forums such the UN.^v India also disagrees with holding a plebiscite because elections in Kashmir have demonstrated the willingness of the Kashmiris to remain a part of India.



(Source: <http://edition.cnn.com/SPECIALS/2002/kashmir/index.html>)

Economic Background

The Kashmir valley may be a very beautiful region but it is also a potentially large economic powerhouse. It has vast resources that can generate profitable agricultural products like various varieties of fruit. Kashmiri handicrafts, especially its shawls and hand woven carpets, are also very renowned and have economic potential in exports. Additionally, the state's vast resources of water give it the potential to generate electricity

using hydro-electric methods. However, over five decades of political insurgency has destroyed most industries and caused a grim economic outlook for Kashmir. For example, the HMT watch factory near Srinagar is one of the last large-scale industries that still remain in operation. Despite large Indian subsidies, the equipment is old, the watches are inferior and the factory is failing.^{vi} Employees have to wait for months for their salaries. "The government subsidies run out next year and then we really don't know what will happen," one employee says. "The government is abandoning us because all the Hindus have left the valley and only the Muslim workers remain."^{vii} The slow war between India and Pakistan has caused misery for the people of Kashmir and has resulted in a suffering economy. Instead of capitalizing on all the assets and resources of the state, it has become an instrument of political and strategic strife leaving Kashmir on the lower rungs of the economic ladder.

Officials still claim that the economic situation is better than it actually looks, but Pervez Divan, the man in charge of the valley's civil administration, concedes there are still problems. "In the last 12 years our per capita income has not declined. Our per capita income has risen by 4% every year in the 1990s," he says. "Now 4% is not a bad rate of growth at all. But considering these were the years when the rest of India went through an economic boom and had an average growth of 6.5%, 4% doesn't look that good any more."^{viii} The basic problem comes simply from the lack of investment, which is solely due to the political instability of the region. Kashmir may have government subsidies, tax-benefits and banks ready to lend at a low interest rate, but even all this cannot attract enough investors to the region. An added disadvantage is its geographical location and

lack of infrastructure. There is only one main road linking the valley with the rest of India, which leads to difficulties in transportation. There is a significant lack of infrastructure in terms of roads, power and telecom. During his visit to Kashmir in 2002, Indian Prime-Minister Atal Bihari Vajpayee announced a package of \$1.3 billion over several years for all kinds of projects in Kashmir.^{ix} But the reality is that a lot of the money will go towards existing projects aimed at improving infrastructure for defense purposes. Some will also go to security personnel, police, migrants and village defense committees, including relief payments to officers who get killed. The bottom line is that stability, and not subsidy, is going to ultimately help Kashmir.

There are certain efforts being made in the right direction. The Chief Minister of Jammu and Kashmir, Mufti Mohammad Sayeed, has taken initiative with the Central government to come up with an effective economic stimulus plan. He has personally written to many of the large industrial houses asking them to invest in Kashmir. He says, “Several are beginning to view Kashmir now as a business proposition, not just a charity. The Norwegian government has proposed a grant in aid of a hydro-electric project for the state that will create 6,000 jobs.”^x

The MORI International survey conducted in Jammu and Kashmir in June 2002 reveal that 93 percent of the sample population think that economic development will help bring peace.^{xi} In our opinion, the people are absolutely correct in their assessment of the role that economic development must play in reducing conflict in Kashmir. However, it is a Catch-22 situation in that peace and economic development are inter-dependent and often lead to one another. There is no denying that over 50 years of economic

mismanagement has caused wreckage in the economic system. A critical issue is that a political mandate for economic reconstruction may be preferable, but the intractable political situation indicates this to be unlikely. However, it can hardly be argued that a growing healthy and successful economy for Jammu and Kashmir would be extremely conducive to any form of political resolution, be it autonomy or full accession to India/Pakistan. Due to the events and negligence of the past, it would be the best solution to start on the path of economic development that will undoubtedly be helpful in the long run, especially when peace is achieved in the region. Additionally, the administration needs to take a strong stance on economic progress that will also win it approval from the people of Kashmir.

Microcredit Background

The concept of a micro-credit loan system is the brainchild of Dr. Muhammed Yunus, who established the first micro-credit program in Bangladesh in 1973. After returning to Bangladesh from economics studies in the United States, where he received his doctorate in economics from Vanderbilt University, Yunus became interested in the plight of the poorest citizens of Bangladesh who were being widely ignored by the economists of the country. Yunus researched the situation and found that very small loans without the usual requirement of collateral, which had made it impossible for poor peasants to receive loans from any major banks, and low interest rates were all that was required to empower the poor and raise them out of the clutches of poverty. Under the banking system of the time, it was impossible for the poorest peasants to receive loans of

any sort because the major banks viewed such loans as too risky, and the peasants did not have the kind of collateral needed to meet the bank's requirements. Any loans that these poor peasants could acquire usually had such exorbitant interest rates that the borrower could rarely pay back the loan, leading to a situation in which the poor were indebted to the lender or lending institution and had no way of escaping this indentured servitude.

After his research, Yunus then went on to found the Grameen Bank in Bangladesh, which specialized in very small loans to only the poorest peasants of Bangladesh. What he found was that small amounts of money were all that was required for many families to begin small businesses and invest in further profits. Another result that seemed to counter the major banks' intuition was that nearly all the loans were paid back promptly and in full. The Grameen Bank does not require collateral, but does place other requirements on the loans. Borrowers must form five-member groups, and only the first two members are initially allowed to take out loans. Once those loans have been paid back in full, the other members of the group are allowed to take out money. In addition to forming small groups, borrowers must attend weekly meetings to ensure that they understand what is involved in taking out a loan and that they are keeping up with the payments.

The Grameen bank was officially transformed into a banking institution in 1983. The growth since then has made it clear that micro-credit is a valuable and economically viable banking option. As of September 2002, the Grameen Bank claimed up to 2.4 million borrowers and a coverage of 60 percent of the total villages in Bangladesh.^{xii} These statistics are confirmed with the rise of numerous other micro-credit organizations

throughout the world. The 2002 report from the Microcredit Summit Campaign shows an average growth rate for the entire micro-credit industry of thirty seven percent from 1997 to 2002. The total number of micro-credit institutions has increased from 618 to a total of 2,186 during those four years and the total number of borrowers has grown from over 13,000 to nearly 60,000.^{xiii} These steady increases show that the concept of micro-credit is an economically sustainable business venture and that it can in fact reach the poorest citizens effectively.

Fig. 1

Year	Number of Programs Reporting	Total Number of clients reached	Number of “poorest” clients reported
12/31/97	618 institutions	13,478,797	7,600,000
12/31/98	925 institutions	20,938,899	12,221,918
12/31/99	1,065 institutions	23,555,689	13,779,872
12/31/00	1,567 institutions	30,681,107	19,327,451
12/31/01	2,186 institutions	54,904,102	26,806,014

Figure 1 shows the trajectory of growth in clients reached since 1997. The “poorest” are the bottom half of those living below the poverty line.^{xiv}

How Micro-credit can help Kashmir

One possible way to facilitate the economic development of Kashmir is through the introduction of micro-credit loans to the poor peasants of the area. Instead of a trickle-down economic theory, micro-credit starts with the poorest of the poor and builds a stronger economic base for the entire region to stand on. It is important to empower the poor of Kashmir and enable them to rise up out of the poverty in which they live. By providing the small loans that micro-credit institutions offer, this economic plan would

give the peasants the power to acquire the land needed to make a living off of a farm or the machines and supplies needed to produce handicrafts. It is in these two areas, agriculture and handicrafts, that the micro-credit program could be most successful in the area of Kashmir.

In the area of handicrafts, micro-credit loans could provide poor women with the necessary funds to purchase the needed supplies and tools to make shawls or carpets, enabling them to start their own small businesses exporting their goods. Without these small loans it is difficult to find adequate money to begin such an enterprise, but once the initial investment has been made, the profits could easily allow a full payment of the initial loan amount. After the loan is paid off the business would still be generating profits and allow the entrepreneur to expand her business. Kashmir is known for its shawls and carpets and the ability to create such handicrafts and export them to other areas of the world in which such commodities are rare and valuable could raise many women and families out of the difficult situation of poverty.

In addition to the handicrafts sector of the economy, the area of agriculture could also be aided with the introduction of a micro-credit program. The Grameen Bank was originally founded when Yunus talked with poor Bangladeshi farmers who could not afford to buy the land they were working on or the necessary tools to produce high-yield crops. If they had the necessary money they could install and manage an irrigation system that would enable them to make a profit off of the investment. Yunus and some of his students then went on to interview a group of forty-two villagers and found that the total amount of money needed to enable these peasants to get out of debt and make a profit for

themselves was approximately twenty-six dollars.^{xv} By providing poor villagers in the agricultural sector of the economy with such a small amount of money, Yunus' micro-credit loans helped the farmers escape the debt in which they were trapped. This same strategy could be used in Kashmir to help the poor farmers purchase land or the necessary farming equipment to make more money off their land. One simple machine may be far too expensive for the poorest peasants to purchase on their own, but if they had the machine it would produce enough profit to pay back the initial investment. This is the purpose of a micro-credit program: to empower the poorest villagers to make investments that will allow them to make a profit and rise out of poverty.

The micro-credit program would only target the poorest of the poor, since this is the population that gets overlooked by larger banking institutions and this is the level at which very small loans are most effective. The amount of money required to create economic sustainability and increased profits in such poor families is often extremely small. But even though the amount of money per family or small group is not very large, the effects of these loans are immense. Families that were once unable to escape debt would be finally able to get out the clutches of this kind of poverty.

By attacking the problem of Kashmir's economy at this level we are not trying or expecting to bring peace simply by helping the poor. But the economic welfare of all the Kashmir citizens plays an important role in the quest for peace. The micro-credit program is one aspect of an overall economic plan to revitalize the region and hopefully lead the way for a peaceful settlement of the dispute.

Tourism

The immortal Sanskrit poet Kalidas wrote about the valley, "The place is more beautiful than the heaven and is the benefactor of supreme bliss and happiness. It seems to me that I am taking a bath in the lake of nectar here."^{xvi} Sir Walter Lawrence wrote "The valley is an emerald set in pearls; a land of lakes, clear streams, green turf, magnificent trees and mighty mountains where the air is cool, and the water sweet, where men are strong, and women vie with the soil in fruitfulness."^{xvii}



Dal Lake:

(Source: <http://jammukashmir.nic.in/tourism/kashmir/welcome.html>)

Kashmir was once described as heaven on earth but now the only visitors to hotels are journalists, there to report on the violence. It used to be a tourist paradise – beautiful lakeside towns nestled in the valleys amidst the grand Himalayas. Tourism, once a

mainstay, is now dead. What once was a picturesque scene of romance and beauty is now home to fierce fighting and human suffering.

Overall tourism in the valley has slightly improved in recent months. More than 2,000 tourists visited the area in November 2002, against a mere 600 in the corresponding period in the year before.^{xviii} The picturesque landscapes of Kashmir were popular with visitors until 1989 with about 800,000 tourists, including 68,000 foreigners, visiting the Kashmir Valley in 1988. But the number plummeted to a mere 10,000 a year after the outbreak of separatist violence in 1989 when armed resistance by pro-Pakistani opponents of Indian rule erupted in the region.^{xix} Six years later, the main road along Lake Dal in Srinagar was once again beginning to get crowded with mostly Indian visitors. But there was a further blow to the tourism industry in 1995 when six foreign tourists were abducted.^{xx} The recent conflict in Kargil in 1999 also sent tourists fleeing the Kashmir Valley in panic. Most western countries advise their citizens not to visit Kashmir.

The new Chief Minister of Kashmir, Mufti Mohammed Sayeed, is launching a drive to attract tourists and Bollywood filmmakers back to the region. He said his officials will meet with tourism and film industry leaders this month, and a host of activities designed to attract tourists are planned until September 2003.^{xxi} Kashmir was once a big attraction for winter sports in its beautiful resorts like the one in Gulmarg. Also, the beautiful landscapes have served well as the backdrops for many Bollywood films. The state government is putting efforts into re-developing these areas and being able to provide the required infrastructure, security and amenities to make certain sectors

of Kashmir attractive for tourists and filmmakers. One of the goals is to be able to provide world-class skiing at a very cheap price. Kashmir has the potential for excellent ski resorts that would attract foreign tourists for its beauty and price. Keeping this in mind, the government is pushing to tap this potentially lucrative resource. Other government initiatives include a 'Kashmir Food Festival' in the major Indian cities of Delhi, Mumbai and Kolkata.

All the above-mentioned efforts as well as new initiatives must be successfully executed to re-establish Kashmir as a tourist destination. The single most beneficial factor would obviously be peace in the region, but until that goal is achieved, the state government needs to move in the direction of development of the tourist infrastructure and related industries. Even in the current situation, certain areas, like Gulmarg, can be made secure to ensure tourist popularity. Tourism would not only be an economically lucrative sector for the Kashmiri economy but would also serve well as an instrument to gain global goodwill through satisfied foreign tourists.

Infrastructure

One other major problem facing the economy of Kashmir is the poor condition and general lack of adequate roads to transport goods domestically or internationally. If the transportation infrastructure was improved, it could lead to drastic economic growth in all areas of the economy, especially the export industries, such as agriculture and handicrafts which have been discussed. This kind of infrastructure development requires

much larger funding than a micro-credit plan to be effective, so the development of adequate roads would need the help of either government funding or third party funding.

If the governments of India and Pakistan were able to work together, either by themselves or with the help of a third party mediator, and construct a system of roads that enabled the easy movement of goods into and out of Kashmir, the economic situation of the people of the region would be vastly improved. This construction is not cheap, however, and would require constant work to keep it from falling into disarray. One possible solution to this problem is the creation of toll roads, to collect the funds necessary to ensure the upkeep of the roadways. These toll roads would be used mainly for exporting and importing goods and these industries would be making a profit off of the movement of goods so they would be able to pay the toll.

The problems with the political situation between India and Pakistan make it difficult to imagine a solution that involves the cooperative effort of both nations. Because of this, it might be the case that the only reasonable solution involves a third party taking the initiative. If it was a third party that was responsible for creating the roads and maintaining them with a portion of the toll money, then the creation of this infrastructure could prove to be a lucrative venture.

Another aspect of the Kashmiri economy that would greatly benefit from an improved transportation infrastructure is the tourism industry. By making it easier to travel to and from Kashmir, this initiative is sure to increase tourism and lead to more money flowing into the region.

Conclusion

The political and economic problems of Kashmir are closely intertwined. The current political situation with India and Pakistan makes it difficult to foresee a political solution in the near future. This should not discourage an aggressive economic plan that will help the economic development of Kashmir. If such a plan can be accomplished, the economic gain will almost undoubtedly play an important role in the steps toward a peaceful resolution of the conflict. Economic development can help stop the constant escalation of the precarious situation. By providing for the people of the region, the economic strategy we have proposed will help ease the process that will eventually lead to a united Kashmir.

We propose a cohesive economic region that includes both the Pakistani occupied region and the Indian occupied region. To adequately address the economic needs of Kashmir, the economic process must be removed from the political process so that headway can be made regardless of politics. In working towards economic progress, it would be beneficial to establish certain international criteria for funding that would work with the government economic policies and serve as prerequisites for funding. International organizations like the UN agencies or the multi-lateral development banks would be good sources for initial developmental funding. For example, The World Bank has a 'Post-Conflict Fund' that is part of their Development Grant Facility.^{xxii} Also, the International Monetary Fund has lending policies geared towards post-conflict periods and areas. All these resources can be tapped by a central agency and then channeled through an umbrella trust fund.^{xxiii} The economic development can be monitored by a

third party, such as a SAARC or World Bank representative, who would have a politically unbiased interest in the economic development of Kashmir.

By establishing economic unity between the two regions of Kashmir, our economic plan would begin to ease the tension between the two regions along the line of control and bring about peace and unity in the near future.

Word count: 4,168

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