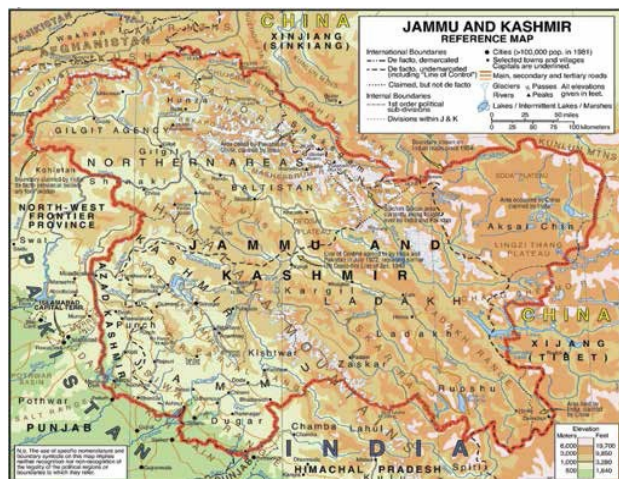


Jammu and Kashmir: Investment Study



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Investment in Jammu and Kashmir has the potential to generate wealth in the region and fuel regional growth. Not only is there opportunity for capital appreciation, investment could have a positive impact in the region, improving cross-border trade and communication.

Although the current economic structure of the region poses limits on the potential of cross Line of Control (LoC) trade, the economies of LoC East and West are relatively small and lacking efficient production structures.

To effectively increase trade, a new structure needs to be implemented, that promotes integration across the various legal, political, economic and social divides in Jammu and Kashmir. The study argues that investments in either side of the LoC will lead to these issues being gradually resolved and establishing long-lasting trade.

Current Business Climate

The disconnect between the two parts of Kashmir has prevented wider and more vibrant economic activity in the region, leading to dependency on India and Pakistan and ‘artificial respiratory mechanisms’. This has led to separate development trends across the two sub-regions, each having different characteristics in terms of their business and regulatory environment.

Currently, the small scale, cross-LoC barter trade initiated by India and Pakistan since 2008 as a confidence building measure faces the constraints of a small market, and needs to be backed up by other tools if it is to change significantly. Economic rejuvenation would need a re-designed trade regime and for policy makers to promote entrepreneurship and capital investment as new drivers to the stabilisation process.

The vast amount of remittances sent back to Jammu and Kashmir by the diaspora illustrates the potential for foreign investment. This could be furthered by greater trust in the investment climate and flow of information.

LoC West

- The economy is dominated by services, followed by agriculture with industry taking a backstage.
- Land is scarce with only 13% being cultivable, however the region is rich in human resource with a literacy rate of 64%.
- Policies made in Islamabad have a profound impact on business in the region. A good level of law and order, conducive for business activities.
- Banking infrastructure supervised and regulated by the State Bank of Pakistan. Lending is very limited, accounting for 5.7% of deposits in 2011, largely due to perceived difficulties in the lending facilities and lack of security on returns.
- Trade in AJK is interwoven with the neighbouring markets of Pakistani provinces. Cross LoC trade is a new phenomenon with trade amounting to \$211 million in 2012, however its impact on the economic rejuvenation of the region remain uncertain.

LoC East

- The economy is dominated by services (54.89%), followed by industry (24.55%) and agriculture (20.56%).
- Being a hill economy and given its distance from the main markets in India, transportation costs are high.
- The governance of the state is influenced heavily by the central government of India. Concessions are in place to attract industry, and build the state’s industrial base. The land is as open to investment as any other in India, even allowing investment from Pakistan.
- Banking and financial institutions in LoC-East are subject to the supervision and control of the Reserve Bank of India. With the current loan ratio at 34.36%, with the stipulated target being 40%. This shortfall is in education, small enterprise and micro-credit, suggesting entrepreneurship still hasn’t taken off.

Kashmir at a glance	LoC West	LoC East
GDP (USD Billion)	3.2	15.2
Area (Km ²)	13,297	101,387
Population	4,000,000	12,548,925

Banking at a glance	LoC West	LoC East
Total Deposits (Rs Cr)	38,100	55,144
Loans (Rs Cr)	1,030	18,949
No. of Bank Outlets	441	1,302

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Investment Potential

In the industrial sector it is clear that on both sides of the LoC, extractive and mineral processing industries constitute a potential area of investment. Thus, cement and marble extraction are potential areas where investors may be attracted. Similarly, given the abundance of raw fruits, agro/fruit processing is also an area that could attract investment.

On a larger scale, the hydroelectric potential sector on both sides of the LoC could attract investment given the energy hunger that exists in India and Pakistan. However due to the capital intensive nature of this industry, a greater capital mobilization is needed to tap this potential source of wealth.

Tourism, which is already big in LoC-East and fast expanding in LoC-West, is still far from reaching its full potential and therefore is a prime candidate for investor attention.

LoC West

- Proven mineral reserves are around 157 million tons (Rs 70 Billion), which may reach up to 264 million tons with the addition of probable reserves. Minerals include Rubies and other semi-precious stones.
- 42% of the area is covered forest, which provides an advantage from a global perspective because these could be used as a source of carbon credits to trade.
- Tourism potential in AJK is a corollary of the state's nature-and heritage-based attractions.
- The region has the potential to generate 5,000 MW of electricity using its natural resources.
- Tax incentives to promote value adding industry.

LoC East

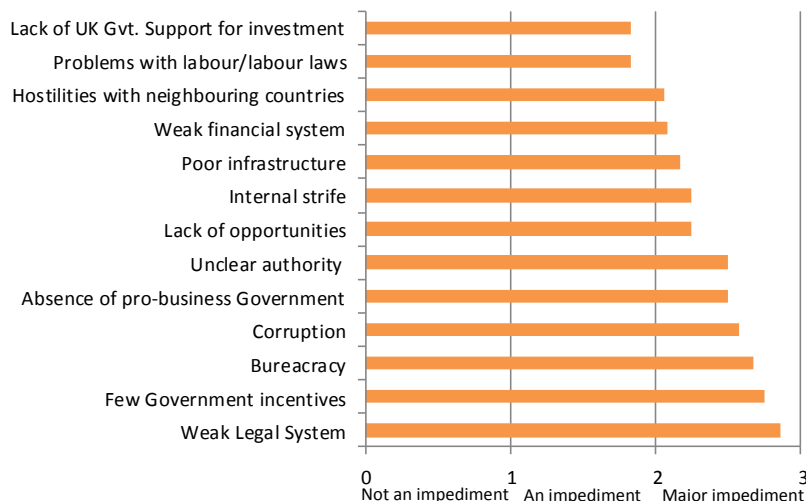
- Large numbers of pilgrims and tourists visiting Katra and the Kashmir Valley. There are not many services for these visitors.
- Eco-tourism declared a 'thrust area', where concessions and subsidies may be obtained.
- Exploitable minerals include Limestone and Gypsum.
- Hydroelectric power is potentially the most attractive destination for investment in LoC-East. Hydroelectric potential is estimated at 20,000 MW.
- Agriculture is difficult due to absence of regulation and formal institutions. Horticulture however, is considerably developed with 325,134 ha producing.

Role of the Diaspora

With the Kashmiri diaspora being well spread, with over 800,000 living in the U.K alone, the remittances to their families in Kashmir remain high. Although these funds are used mainly for consumption, the diaspora could be motivated to invest in the region for the social change that could bring.

However the diaspora still holds negative perceptions of business in Kashmir (as detailed in the chart on the right), that ward against any inclination to invest in the region.

UK Diaspora's perceptions on economic impediments in Kashmir (Survey)



Economically, the rejuvenation of the private sector is seen as a primary component of peacebuilding in countries making the transition from war to peace. Failed growth is regarded as having dire consequences, and the investment of capital and know-how seen as essential to serving as a bulwark against a return to violence.

Negative perceptions about security and the earlier opaque regulatory regime still remain in the minds of investors. The key in shaking off these perceptions is for the government on either side to take the initiative and align the state's policies with its economic advantages, thus creating an environment that promotes entrepreneurship.

*This study was authored by: **Ambassador (Rtd) Arif Kamal**, Member of the Syndicate University of Azad Jammu and Kashmir; **Prof. Dipankar Sengupta**, Chair of the Department of Economics University of Jammu; **Dr Parikshat Singh Manhas**, Associate Professor, The Business School, University of Jammu; **Shoaib Khan**, MSc International Relations, London School of Economics; **Conciliation Resources (CR)**, a UK-based nongovernmental organisation, provided support for this study.*