

CPEC in AZAD JAMMU & KASHMIR

A GATEWAY TO REGIONAL CONNECTIVITY & BEYOND

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Centre for Peace, Development
and Reforms (CPDR)

About CPDR

The Centre for Peace, Development and Reforms (CPDR) is a nongovernmental, nonprofit and nonpartisan research, training and advocacy organization dedicated to promoting peace, development and reforms through dialogue and reconciliation.

Founded in 2010, the CPDR is registered with the Government under the Societies Act 1860 (Act XXI of 1860), having specified Memorandum of Association.



Our Vision

Promoting and encouraging peace and development at all levels through dialogue, reconciliation and reforms.

Our Mission

Strengthening civil society to ensure transparent and participatory governance through peaceful interaction between stakeholders and government and to propose necessary reforms for peace and development. Promoting accountability, cultivating civic culture, values of freedom, tolerance, economic development and democracy. Providing an effective platform for conflict resolution with special reference to the divided State of Jammu and Kashmir.

Our Objectives

- ◆ Empowering civil society; promoting peace, participatory governance, transparency and reforms through dialogue and reconciliation.
- ◆ Support democratic values, accountability, and human rights while striving for economic development and social justice.
- ◆ Promoting ethical values, civic culture, and tolerance and due attention to the marginalised and vulnerable sections of society.
- ◆ Providing an effective platform for conflict resolution with special reference to the State of Jammu and Kashmir.

Executive Summary

China-Pakistan Economic Corridor (CPEC) is the flagship project of One Belt One Road (OBOR) vision of the incumbent president of China. Connecting Kashgar city of China's Xinjiang province with Gawadar Port in Pakistan, CPEC passes through Gilgit-Baltistan, a part of the erstwhile State of Jammu and Kashmir, before connecting different parts of Azad Jammu & Kashmir (AJ&K) with it.

Under the CPEC, four projects are sanctioned for AJ&K, out of which, two are energy-related, the third one is construction of a road and finally, a special economic zone.

With an estimated construction cost of Rs.264 billion, Mansehra-Muzaffarabad-Mirpur-Mangla Expressway, phrased as M4, connects Muzaffarabad, the capital of AJ&K, with the Grand Trunk Road, commonly known as GT Road, through Mangla and Mirpur. Besides providing the shortest route from Central Punjab to CPEC, the road is poised to triggering massive development activities in different sectors in AJ&K, such as agriculture, tourism and industry.

The Kohala Hydropower Project is a run-of-the-river project with a total installed capacity of 1,124MW. The estimated cost of the project is \$2.5 billion. The government of AJ&K will receive Rs.674 million as water use charges per year during 30 years operation period of the project. The Federal government in Islamabad will get around \$23 million of withholding tax during 5 years construction phase of the Project.

The Karot Hydropower Project is a run-of-river project, located near Karot in Punjab, Pakistan, and Hollar, AJ&K. Its installed capacity is 720MW (4×180MW), average annual electricity output is 3436GWh.

Under the CPEC, a Special Economic Zone shall also be established at Mirpur. Spreading

over 1,078 acres, the zone is categorized as mixed industry and is situated just 22km from GT Road Dina-Jhelum and 140km from the industrial city of Pakistan named Sialkot. It would be connected to main CPEC route via M4.

AJ&K-centered CPEC projects have an enormous potential to uplift the socio-economic conditions of the inhabitants of this region. CPEC offers an opportunity to link AJ&K up with the outside world and utilize indigenous resources to attain self-reliance and sustainability.

Hydropower and tourism are the backbone of the economy of AJ&K. According to conservative estimates, construction of the Kohala Hydropower Project would earn AJ&K Rs.2.19 billion per annum. In the same vein, the construction of SEZ at Mirpur is also poised to provide a strong industrial base to AJ&K and help it become an exporter, rather than a mere consumer-oriented society. Last but not the least, M4 project is destined to provide the much needed network to interconnect different parts of AJ&K, besides linking it with the outside world through Karakorum Highway.

It, however, also remains a fact, that with the exception of Karot Hydropower Project; work on the other proposed projects has not been initiated yet, primarily because of the non-release of funds by the Federal government or controversies regarding the project design and the ensuing environmental issues. Besides political and social repercussions, it is also bound to hike the estimated cost of these projects with the passage of time. Worst, a strong likelihood is that they would be politicized by different vested groups and put on the backburner at the cost of the economic prosperity and regional connectivity of AJ&K.

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CPEC in Azad Jammu and Kashmir

A Gateway to Regional Connectivity and Beyond

Background

China-Pakistan Economic Corridor (CPEC) is the flagship project of One Belt One Road (OBOR) vision of China. The initiative aims at contributing towards global prosperity by developing closer linkages among countries in Asia, Europe and Africa. Connecting Kashgar city of China's Xinjiang province with Gawadar Port in Pakistan, CPEC passes through Gilgit-Baltistan, a part of the erstwhile State of Jammu and Kashmir, before connecting different parts of Azad Jammu and Kashmir (AJ&K) with it.

Under the CPEC, four projects are sanctioned for AJ&K, out of which, two are energy-related, the third one is construction of a road and finally, a special economic zone. The present study examines the significance of these projects and underlines how they can impact the socio-political and economic conditions of people in the area, besides promoting greater connectivity and cooperation among the inhabitants of different parts of Kashmir.

The study is divided into three chapters: In the first chapter, a brief introduction of CPEC, its origin and the projects envisaged under it is given. However, the main thrust of the discussion remains as what projects are planned under it for AJ&K.

In chapter two, socio-political and economic impact of the proposed projects in AJ&K is looked into. It is widely based on the discussion with local people, policy-makers, academia and political representatives.

In chapter three, the potential role of CPEC in the revival of the ancient silk route alongside creation of an atmosphere conducive to enhanced people to people contacts, exchange of free ideas and goods among people living in different parts of the erstwhile State of Jammu and Kashmir is looked into.

Methodology

Both quantitative and qualitative methods were used to carry out this study. For basic information about CPEC, the writer has relied upon primary sources of information, such as the governments of Pakistan and China. To explore the potential impact of CPEC on different sectors in AJ&K, group discussions, one-on-one interviews and meetings were held with government officials, bureaucrats, retired public servants and media persons and members of civil society.

1. CPEC:

An Introduction

The idea behind One Belt One Road (OBOR), is to connect this region with Asia, Africa and Europe through various means of communication, including road, maritime and fiber optics. The plan aims at wider economic cooperation among participant countries with a total worth of over \$800 billion¹ (ACCA, July 2017). The plan has six economic corridors, with CPEC as one of them, carrying overriding importance for both China and Pakistan as the project starts from Gawadar Port in Pakistan and ends at Kashgar in China.

The two regions are connected through two distinctive routes, known as Eastern Route and Western Route. With a total investment of \$56 billion and stretching over 3,000km, CPEC comprises 64 projects related to energy, transport and infrastructure sectors. Amounting to 19% of national Gross Domestic Progress (GDP), the program is expected to be completed by 2030² (Karachi Chamber of Commerce and Trade, February 2017).

1.1 Significance of CPEC for China and Pakistan

CPEC is exceptionally important for both China and Pakistan. As a matter of fact, reaching out to its central and western parts has always been a challenge to China because of their topography and geographic location. With one third of its poor people living in this region, China plans to open up this part of its country to Central and South Asia through CPEC and start a new era of economic development and prosperity in it³ (Xiaolu, 2015). CPEC is also important to China's energy security. China imports almost 60% of its energy requirements

from the Middle East and Africa through the Strait of Malacca. CPEC provides China with an alternative energy supply route⁴ (Hussain, June 2017). It is much shorter than the existing sea-lane, which is about 12,000km long while CPEC energy corridor would stretch over only 3,000km.

Likewise, Pakistan also envisions massive development in different sectors and enhanced regional connectivity as a result of the successful completion and functioning of the CPEC. The projects under CPEC are divided into four categories i.e. Energy Projects, Infrastructure Projects, Gawadar related Projects and Industrial Cooperation. Besides creating two million new employment opportunities, CPEC would help Pakistan reap at least two percent increase in its GDP per annum. Furthermore, it would allow it to develop a wider regional connectivity with countries in Asia, Central Asia, Middle East and Africa.

1.2 CPEC and AJ&K

AJ&K was carved out of the erstwhile State of Jammu and Kashmir, following a popular uprising against the ruler of the latter in 1947. Spreading over an area of 5,134 square miles⁵ (Azad Jammu & Kashmir Statistical year Book 2017, 2017), AJ&K lies to the North of Pakistan and is mainly hilly and mountainous, characterized by deep ravines and undulating terrain.

With a total population of 4.045 million people and 76.6% literacy rate (Statistical Year Book 2018, 2018), AJ&K is figuratively divided into northern (Neelum, Muzaffarabad, Hattian, Bagh, Haveli, Poonch, and Sudhnoti) and southern districts (Kotli,

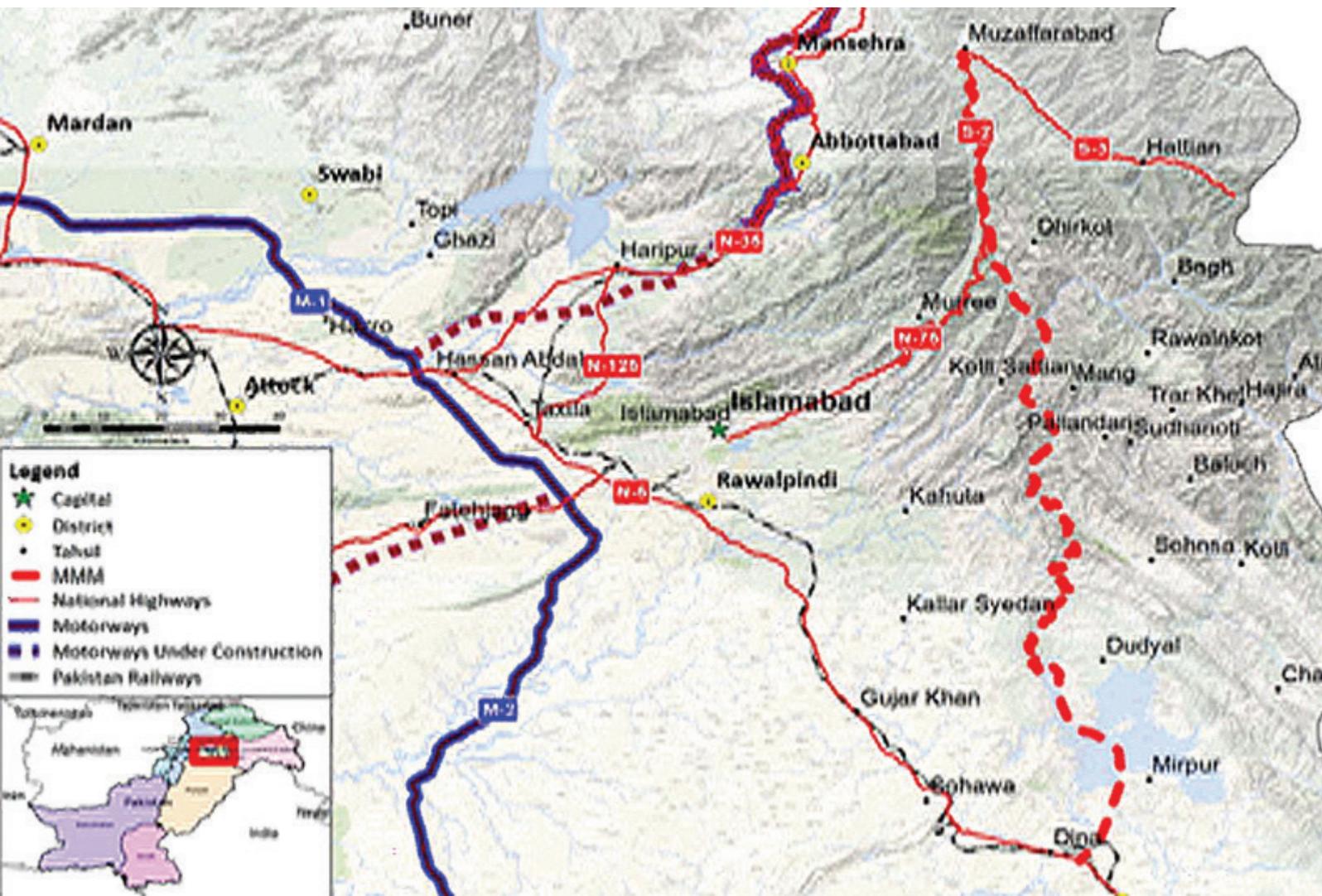
Mirpur, and Bhimber), lacking a swift and reliable road network to interconnect them. Hence, travel between the districts is more convenient through the bordering Punjab region, the largest province of Pakistan, which consequently also impacts the socio-political and economic development taking place in them.

Being an integral part of the erstwhile State of Jammu and Kashmir, AJ&K has a direct link with CPEC which passes through Gilgit-Baltistan, a territory which was a part of the erstwhile state of Jammu and Kashmir in 1947. To trigger multi-sector development in the area, four projects are sanctioned under the CPEC for AJ&K. Two of them are energy projects, one road and a Special Economic Zone (SEZ).

Below is given a brief introduction of these projects while their likely impact on different sectors in AJ&K is looked into at its relevant place in the later part of the paper.

1.3 Construction of Mansehra-Muzaffarabad-Mirpur-Mangla Expressway

Stretching across around 200km with an estimated construction cost of Rs.264 billion, the 4-lane divided controlled Mansehra-Muzaffarabad-Mirpur-Mangla Expressway, phrased as M4, connects Muzaffarabad, the capital of AJ&K, with the Grand Trunk Road, commonly known as GT Road, through



Mangla and Mirpur (htt1). For initial 35km, the road would run parallel to the existing Kohala-Muzaffarabad road along the River Jhelum. From then onwards, the expressway would continue on the left bank of the river till Mangla and after connecting to Mirpur, will terminate at GT Road near Dina, a city in Jhelum District of Punjab.

The project includes construction of four tunnels with a total length of around 3km. Construction of 122 bridges, 260 culverts, 6 interchanges, and 3 weigh stations are also a part of the project. The width of the main lane would be 3.65m with 3m wide outer shoulder and 1m inner shoulder. The designed speed limit on the Expressway would be 120km/hr with a right of way (ROW) of 100m.⁶

Upon completion, it will be the shortest route from Central Punjab to CPEC, through AJ&K, shortening the existing route by 50km and saving around four to six hours of travel time along this way. It would also act as an alternative route for CPEC, besides providing another strategic link between central

Punjab and AJ&K.⁷ It is a green field project that will open new vistas of development and social uplift, thus boosting the socio-economic prospects for all those areas where it would run through.

1.4 Kohala Hydropower Project

The Kohala Hydropower Project is located at the Jhelum River near Muzaffarabad. The dam site is just upstream of Domel, 174km from Islamabad. It is the largest direct foreign investment under the CPEC in AJ&K. It is a run-of-the river project with a total installed capacity of 1,124MW. The average annual energy generation of the main power station will be 5.079 billion kWh. The estimated cost of the project is \$2.5 billion⁸ (KHCL, Kohala Hydro Company (private) Limited, 2018).

“*Three Gorges Company of China will develop this project on fast track basis. For 25 years, AJ&K would receive Water Use Charges against this project, thereafter it shall be entrusted with its complete administrative and operational rights by the construction company. A very conservative estimate suggests that this project would earn AJ&K Rs.2.19 billion per annum, while after 25 years, the dividends will be equivalent to that of more than two Mangla Dams (KHCL, 2018).*”

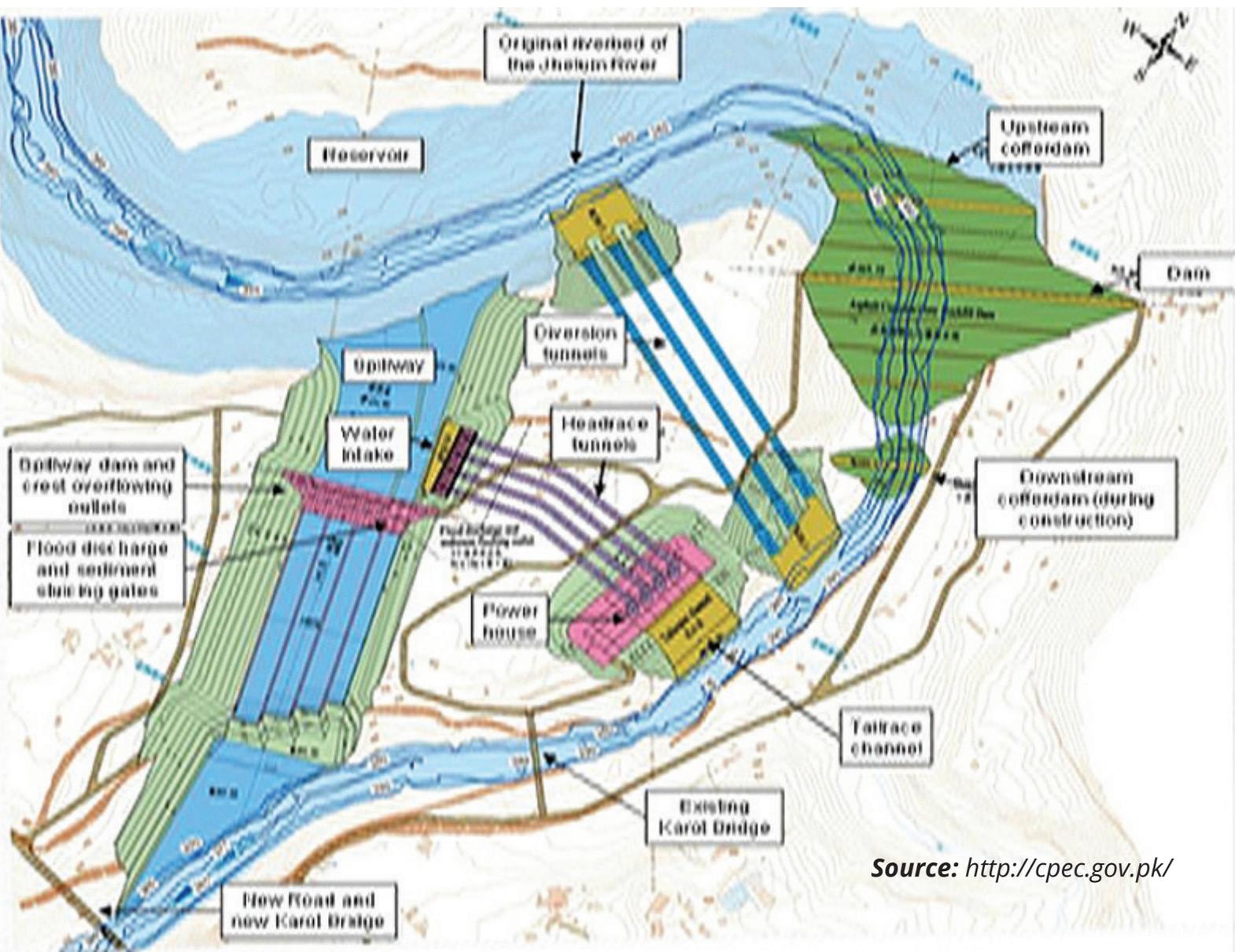


Source: <http://cpec.gov.pk/>

1.5 Karot Hydropower Project

The Karot Hydropower Project is a 720MW run-of-river project, located near Karot in Punjab, Pakistan, and Hollar, AJ&K. It is being developed by Karot Power Company (KPCL) and will have a reservoir storage capacity of 164.5mm³ and is expected to cost approximately \$2 billion. It is expected to create employment opportunities for around 3,500 people, comprising approximately 85% local citizens.⁹

The project is being developed under the Power Policy 2002 on Build-Own-Operate-Transfer (BOOT) basis, with an expected concession period of 30 years and construction period of 5 years. The government of AJ&K will receive Rs.674 million as water use charge per year during 30 years operation period of the project. The Federal government in Islamabad will get around \$23 million¹⁰ of withholding tax during 5 years construction phase of the Project.

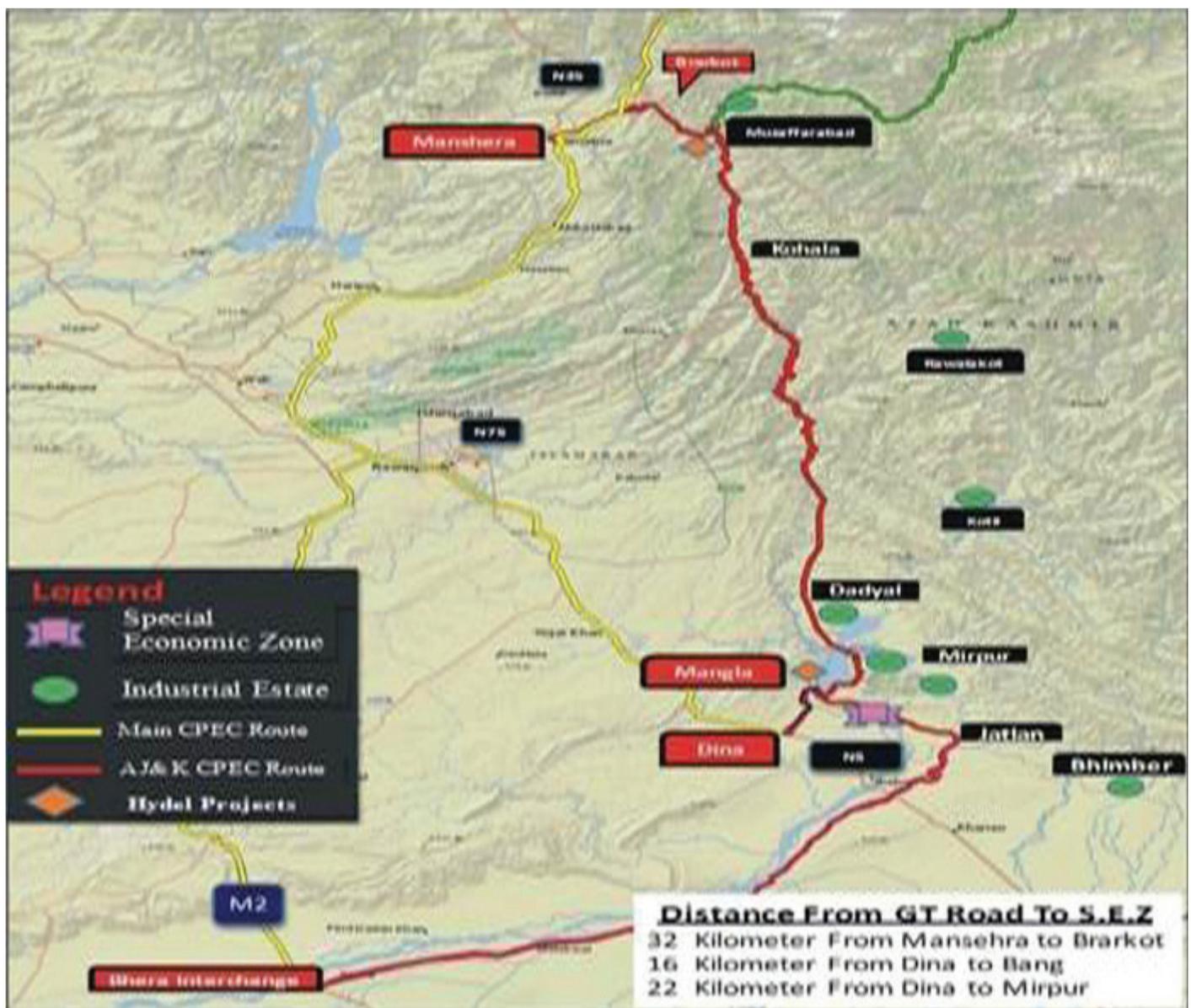


Source: <http://cpec.gov.pk/>

1.6 Special Economic Zone at Mirpur

Under the CPEC, a Special Economic Zone shall also be established at Mirpur, largely known as the city of overseas Kashmiris. Spreading over 1,078 acres, the zone

is categorized as mixed industry and is being considered as a giant leap towards industrialization in AJ&K. It is situated just 22km from GT Road Dina-Jhelum and 140km from the industrial city of Pakistan named Sialkot. It would be connected to main CPEC route via Mansehra-Muzaffarabad-Mirpur-Mangla Expressway.¹¹



Source: <http://cpec.gov.pk/>

2. CPEC in AJ&K

Socio-political and Economic Impact

Projects sanctioned under the CPEC contain all the ingredients to transform the socio-economic fabric of AJ&K and turn it into a truly resourceful and self-reliant region in Pakistan. Two main factors support this assertion: one, CPEC would interconnect different parts of AJ&K to make it as one compact unit, and secondly, it shall provide a short, safe and all-weather functional route to the business class based in different cities of Punjab and KPK, in particular to the trade within and beyond the region. Interestingly, almost 80% of AJ&K lies on the CPEC routes and, hence, is well-poised to become a part of this trans-borders project.

2.1

A Critical Analysis

As mentioned in the preceding chapter, CPEC in its folder contains four projects for AJ&K. Two of them i.e. Kohala and Karote are hydropower projects while M4 and SEZ at Mirpur are in essence linked with the development of trade and commerce in the area. Interestingly, while a strong support exists for these two projects, resentment abounds vis-à-vis hydel projects in view of their purported ecological effects and location of the power house for one of them. A critical look on these projects is made in the following paragraphs:

2.2

Mansehra-Muzaffarabad-Mirpur-Mangla Expressway

Because of its geo-strategic location and proximity to different industrial cities of Pakistan, M4 project is invariably deemed as the master key to kick start the socio-

political and economic development in AJ&K. Government officials believe that this project is as important to AJ&K as is CPEC to the One Belt One Road (OBOR). "If the successful completion of OBOR can turn China into a real economic power in the world, M4 can also catapult AJ&K to become one of the most affluent and self-reliant areas in our region¹²".

In the same vein, many political commentators look at it as, "the real game changer in the context of AJ&K, for it will immediately dismantle the wall isolating this region from the rest of the world and open up the floodgates of economic activities and tourism in it¹³ (Rao, 2019)".

The project is expected to transform AJ&K in multiple ways, some of which are as follows:

Regional Connectivity:

AJ&K at present is a narrow strip lacking intra-district connectivity due to its odd territory. In the absence of any viable land route, the people of the southern districts i.e. Mirpur, Bhimber and Kotli, have to travel to Muzaffarabad via Islamabad and other cities of Punjab province, which is both expensive and time consuming. However, M4 project is strategically designed to establish a direct interconnection between Southern and Northern parts of it. According to an estimate, the current six hours travel time between Muzaffarabad and Mirpur will be reduced to just three and a half hour after the completion of M4 project.¹⁴

As around 80% of AJ&K is located at the CPEC route by means of M4 project, almost the whole of this region would benefit from

it directly and emerge as an interconnected and compact unit. Areas lying on the Line of Control (LoC) – the dividing line between Indian and Pakistani administered parts of Kashmir - such as Neelum Valley in Muzaffarabad division; however, are not poised to benefit directly from CPEC project.

“In view of intra-AJ&K connectivity issues, people of Northern and Southern regions of AJ&K fail to benefit truly from development projects and economic activities taking place at them, respectively. Hence, allocation of funds under annual development programs of government create an atmosphere of rivalry and resentment. It is also a fact that a prime minister sitting at Muzaffarabad always ensures that maximum funds go to the region he belongs to. M4 project is expected to break this ‘us and them’ mentality and help AJ&K emerge as one unit”.

Ghulam Murtaza, Ex-president AJ&KCCI

Promotion of Agriculture and Trade:

Geographically speaking, AJ&K is divided into two distinct regions, called as Northern and Southern regions. Climatic conditions in them are markedly different¹⁵ (Azad Government of the State of Jammu & Kashmir, 2018), providing a rare opportunity to the local dispensation to develop and promote agriculture on a pattern so as to meet the food requirements of them, indigenously. For instance, climatic conditions in Mirpur, Bhimber and Kotli are suited for the production of wheat, maize,

rice, mango, animal vegetation, etc., whereas Muzaffarabad, Bagh and Rawalakot can be targeted for the production of fruit, pulses, onion, potato and flowers on a bigger scale. Furthermore, varied altitude and climatic conditions in AJ&K can also be exploited to produce off-season vegetables and fruit. Many non-governmental organizations, such as Islamic Relief, Pakistan and Human Appeal, Pakistan are already engaged in such activities at a modest level in district Muzaffarabad and Bagh, with highly encouraging results on the ground. With no formal study available on this subject, agriculture experts point to the potential of AJ&K to produce off-season vegetables and fruit in order to generate extra revenue.

It also stands as a fact that, in the absence of any preservation and swift transportation mechanism, huge quantity of fruit is perished each year in AJ&K. One can only underline that it denies AJ&K a handy opportunity to generate some extra resources and income. Construction of M4 would play a vital role in timely and cost effective transportation of such kind of products to nearby markets in AJ&K and Pakistan.

“AJ&K has a great potential to produce off-season vegetables and other edible items using modern techniques, such as tunnel farming. Several non-governmental organizations are already running many such projects successfully across the area and can play a vital role in popularizing this concept at grassroots level here”.
Prof. Zaheer Chaudhry.

Tourism and Excursion:

AJ&K is blessed with numerous picturesque resorts and locations which have remained un-treaded, largely due to either lack of infrastructure development or cross-firing between India and Pakistan on the LoC. Compulsion of No Objection Certificate (NoC) for foreigners intending to visit AJ&K has also discouraged the efforts to promote tourism and excursion in this area. The requirement of NOC for foreigners entering into AJ&K was lifted in 2019. The decision is received as a gigantic move to boost tourism in the area.

AJ&K has also embarked on an ambitious plan to construct three Tourism Corridors, stretching over 200km, to attract foreign and domestic visitors to its picturesque destinations. With an estimated cost of Rs.22 billion, the corridor starts from Saran village in Hattian Bala District and terminates at Devi Gali after passing through Sudhan Gali, Ganga Choti, Haji Peer, Lasdana, Khaigala, ToliPeer and Banjosa (htt10).

Geographically speaking, the first corridor lies in the Jhelum Valley and Poonch¹⁶, the second in the Neelum Valley and the third one in Kotli-Mirpur.

With this in the background, the construction of M4 is viewed as a gigantic step to link up different parts of AJ&K, besides connecting it with a larger network of communication and transportation. It would provide a safe, secure and easily accessible passage to the tourists from central Punjab and KPK, in addition to the foreigners, with Islamabad as their first destination.

“AJ&K is fast emerging as the first choice of tourists from central Punjab in particular in view of peace and better law and order situation in this region. Currently, Neelum Valley is their preferred destination, which incidentally received more than half a million tourists in the preceding year. M4 will open up entire AJ&K to national and international tourists, which will provide a new impetus to the socio-economic development of this area”.

Mushtaq Minhas, Minister for Tourism, AJ&K

Heritage Tourism:

Stretching over just 5,134 square miles, AJ&K is blessed with numerous heritage and archeological sites, having a special significance for both historians and devotees. A survey team in 2014 identified around 100 archeological and heritage sites, bearing the footprints of Mughal, Sikh and Dogra rule¹⁷. Most of these sites would be easily accessible to tourists and devotees after the completion of M4 project.

Besides providing an impetus to the economy of AJ&K on the whole, it shall in particular infuse new life into different sectors, such as transportation and hoteling, and generate employment opportunities for the local people.

List of Heritage and Archeological Sites in AJ&K

S. No.	Name	Type	District
1	Bagh Fort	Fort	
2	Bhrund Fort	Fort	Kotli
3	Darbar Mai Toti Sahiba	Shrine	Kotli
4	Fountains and gardens at Khuiratta	Historical site	Kotli
5	Ramkot Fort	Fort	Mirpur District
6	Khari Shareef	Shrine	Mirpur
7	Mangla Fort	Fort	Mirpur
8	Burjun Fort	Fort	Mirpur
9	Pir Chinasi	Shrine	Muzaffarabad District
10	Red Fort	Fort	Muzaffarabad
11	Black Fort	Fort	Muzaffarabad
12	Baghsar Fort	Fort	Bhimber District
13	Kohala Bridge	Historical site	Muzaffarabad
14	Quaid-e-Azam tourist lodge, Barsala	Historical site	Muzaffarabad
15	Sain Saheli Sarkar Darbar	Shrine	Muzaffarabad
16	Sharda Peeth (Sharda Fort)	Ruins, Archaeological site	Neelum Valley
17	Sharda Buddhist University	Archaeological site	Neelum Valley
18	Baral Fort	Fort	Sudhanoti
19	Rani Bowli (Pallandribowli)	Historical site	Sudhanoti
20	Barnad Fort	Fort	
21	Aion Fort	Fort	
22	Ranbir Singh Baradari	Historical site	Muzaffarabad
23	Mughal Mosque	Mosque	Bhimber
24	Haathi gate (Mughal Elephant gate)	Historical site	Bhimber
25	Sarai Saadabad	Historical site	Bhimber
26	Darbar Baba Shadi Shaheed	Shrine	Bhimber
27	Ali Baig Gurdwara	Gurdwara	Bhimber
28	Darbar Haji Pir	Shrine	Haveli
29	Throchi Fort	Fort	

Source: Tourism and Culture Department, AJ&K

Socio-economic integration:

M4 will promote closer socio-economic relations between AJ&K, KPK, central Punjab and Gilgit-Baltistan. As the shortest and all-weather CPEC route, M4 would receive heavy transportation of goods between these regions and generate a tremendous amount of business activities along its surrounding regions. According to conservative estimates, M4 would generate a good revenue through toll tax alone each year, providing an additional source of income to the government to initiate development projects in AJ&K. This enhanced connectivity of people through business will help forging closer socio-economic relations between AJ&K and other parts of the country.

Historically speaking, AJ&K has always been a consumer society, with very few food items and industrial products at its disposal to sell to the people in its adjoining markets in Pakistan. M4 is destined to change this situation to a great extent, as it shall allow the people of AJ&K to trade with their counterparts in central Punjab, KPK, GB and even China. Besides promoting socio-economic integration among the residents of these regions, it shall also promote export oriented culture in AJ&K". Prof. Taskeen Ahmed, AJ&K University, Muzaffarabad

2.3

Special Economic Zone at Mirpur

Under the CPEC, a Special Economic Zone (SEZ) shall be established at Mirpur. The project is looked at as a thin end of the wedge to industrialization and linkage of the region with a web of wider trade and commerce activities taking place in Pakistan and China¹⁸.

Before exploring the viability of this initiative, it is imperative to have a survey of the current status of industry in Mirpur, alongside the contribution it is making to the national exchequer. It shall be followed up with a look into the basic concept of SEZ, legal framework of its functioning in AJ&K and, finally, as why industrialists and policy makers alike attach extra-significance to SEZ at Mirpur.

Current Status of Industry:

Mirpur has comparatively a better industrial base in AJ&K. It is a host to industrial units, including, but not limited to, foam, polypropylene, synthetic yarn, motorbikes and scooter, textile, vegetable oil (ghee), wood and sawmills, soap, cosmetics, marble, ready-made garments, matches, rosin, turpentine, pharmaceutical companies, mobile phone sets reassembling, salt lamb production, tobacco and, jam and cherry.

According to official sources, currently 430 medium and small sized industrial units exist in Mirpur, with 5,681 people employed with them, directly.

Mirpur based Industrial Units at a Glance

S. No	Sanctioned Industrial Units	430
1	Industrial Units established within Industrial Estates	223
2	Industrial Units established outside Industrial Estates	72
3	Industrial Units in production	174
4	Sick Units	49
5	Units under Construction/process	209
6	Labor Employed	5681

Source: Department of Industries and Commerce, AJ&K

Contribution of Industrial Units in Revenue Generation in AJ&K (Revenue collection in PKRs. Millions)

Year	Direct Income	Indirect Income (Excise Duty + Sales Tax + Income Tax)
2011-12	126.392	5441.204
2012-13	126.392	1140.972
2013-14	21.915	2151.033
2014-15	19.127	2057.665
2015-16	38.514	1759.614
2016-17	51.776	4960.000
2017-18	25.66	

Source: Department of Industries and Commerce, AJ&K

What is a Special Economic Zone:

“A special economic zone (SEZ) is an area in which the business and trade laws are different from the rest of the country. SEZs are located within a country’s national borders, and their aims include increased trade balance, employment, increased investment, job creation and effective administration. To encourage businesses

to set up in the zone, financial policies are introduced. These policies typically encompass investing, taxation, trading, quotas, customs and labor regulations. Additionally, companies may be offered tax holidays, where upon establishing themselves in a zone, they are granted a period of lower taxation”.

Legal Framework of SEZs in AJ&K: SEZ Act 2016:

Establishment and functioning of Special Economic Zones are governed by SEZ Act 2016 of AJ&K. It explains in detail the roles and responsibilities of different governing bodies, in addition to the provision of fiscal and non-fiscal incentives ensured by the government of AJ&K to the industries established within the premises of a SEZ¹⁹.

The Act declares that the SEZs can be developed either by the public sector or the private sector exclusively or they can be established on public-private partnership basis (PPP), irrespective of foreign or domestic investors. The Act authorizes the establishment of SEZ anywhere in AJ&K with minimum 50 acres of land. However, 70% of the area should be used for processing while remaining 30% should be kept as non-processing area, including the buildings for various services such as hospitals, residence, vocational training institutes, etc. Moreover, the investors will attain the following fiscal and non-fiscal incentives.

Incentives Offered Under AJ&K SEZ Act 2016:

The Act offers a set of incentives to investors to facilitate the establishment of industrial units in AJ&K. Some of these incentives are as under:

1. Zone developers and Zone Enterprises to have duty free import of capital goods for establishment, maintenance of Zones and projects therein.
2. Income tax exemption for Zone Developers and Zone Enterprises for a period of ten (10) years.
3. All utilities and infrastructure till zero point of the Zone will be provided by the Government.
4. Captive power generation allowed to zone developers, and excess can be sold.
5. One -Window Facilities by Department of Industries, government of AJ&K.
6. Security arrangements by the government
7. Incentive/exemptions once granted to SEZ clusters, SEZ Developers and Zone Enterprises cannot be withdrawn
8. Freight subsidy by Federal Govt. @ 50% on the inland transportation of plant and machinery.
9. Provision of plots/land on installments (50% down payment and remaining 50% on four biannual installments basis).
10. To reduce the cost of setting up the industrial units, the developers would also be allowed to rent out sheds for industrial use.
11. One Window Facilitation through SEZ Authority - The provincial government to either delegate authority to the SEZ for implementing labor, environment and other related laws, and for the collection of local / provincial taxes or to depute representatives of the departments in SEZA office and the Federal Govt. departments (FBR, SECP etc.) to perform similar functions in the zone.
12. The developer shall also be allowed to purchase Gas, Electricity and other utility providers in bulk and supply the same to the enterprises at the rates duly notified by SEZA in consultation with its stakeholders.

Strategic Location of SEZ at Mirpur:

Mirpur is the only industrialized city in AJ&K at the moment, with the availability of a good infrastructure and skilled manpower. It is ideally located to emerge as a real economic

hub because of its proximity with the major industrial cities and transportation networks in Punjab.

The table below provides a snapshot of the distance of SEZ at Mirpur from the key places in Punjab.

Distance of SEZ from Adjacent cities and networks

S. No	Place/network	Distance from SEZ
1	Laraib Energy Project	0km
2	Mirpur City	05km
3	Mangla Power Station	04km
4	Dina/GT Road	16km
5	Jhelum	43km
6	Rawalpindi	125km
7	Airport (Islamabad)	145km
8	Dry port (Islamabad)	110km
9	Gujarat	100km
10	Sialkot	145km

Source: Department of Industries and Commerce, AJ&K

Mirpuri Diaspora and DFI:

Another unique feature behind potential success of the SEZ in Mirpur is the presence of over half a million overseas Mirpuris, based in the United Kingdom (UK) in particular and America, Canada and Scandinavian countries in general. Apart from making direct foreign investment in many sectors, they are in fact the backbone of informal garment industry firmly rooted in Mirpur at

the moment. With the UK-based Kashmiri diaspora as the chief target market, the total worth of this industry stands at 8-10 million rupees per annum, according to various estimates.

With the establishment of SEZ, such kind of informal industries can emerge as strong industrial units and play a vital role in the economic development of the area over a period of time.

“Establishment of SEZ will trigger massive industrialization at Mirpur, besides injecting competitiveness spirit in the existing units over here. Apart from regularization of informal units, such as garments, it will also be quite tempting to many businessmen to relocate their industrial units to this area from KPK and Central Punjab because of the tax exemption policies of the AJ&K government and the short link with CPEC through M4. I can also foresee establishment of certain industrial units here which the Chinese government might like to shift in view of environmental issues”.

Sohaib Saeed Chaudhry, Ex-President AJ&KCCI

“Strategic location, dedicated diaspora and, on the top of that, a highly business friendly environment, SEZ at Mirpur has all the reasons to emerge as one of the most successful endeavors undertaken from the platform of CPEC. There is no reason it should not overtake some of the most industrialized cities in Pakistan over a period of time, should it also be provided with additional facilities, such as international airport and dry port. Direct foreign investment at a massive scale by overseas Mirpuris hinges a lot upon provision of these two facilities in particular”.

Zulfiqar Abbasi, Ex-president AJ&KCCI

2.4 Kohala Hydropower Projects

Kohala Hydropower Project carries an overriding significance in the context of socio-political and economic development of AJ&K. Besides grabbing the largest direct foreign investment under the CPEC for AJ&K, it also redefines the dynamics of power relationship between WAPDA, energy distributor and regulatory agency, and AJ&K to administer and operate the mega hydel projects established on the soil of the latter.

AJ&K Vs WAPDA: A Shift in Power Dynamics:

Kohala project is being developed in accordance with the Power Policy 2002 of Pakistan (htt16). It shall be built on the basis of Build-Own-Operate-Transfer (BOOT) formula. After thirty years of completion, the construction company would transfer its administrative and operational rights to AJ&K.

It is important to be recalled that AJ&K is home to two big power projects i.e., Mangla and Neelum-Jhelum, which together produce over 2,000MW of electricity.

However, their administrative and operational rights lie exclusively with Water and Power Development Authority (WAPDA) while AJ&K is entitled to receive only the water usage charges against them. This kind of arrangement has long remained a tug of war²⁰ between the two sides as even the top most leadership in AJ&K, has criticized it several times on different grounds.

Settlement of the Issue:

The launching of Kohala project coincides with the decision of the Federal government of Pakistan to treat this issue on the basis of “merit and principles of justice”. Under the new arrangement, the government of Pakistan has declared to treat AJ&K at par with KPK and Punjab in terms of net hydel power profits and jack up the water usage charges amount paid to AJ&K from 15 paise per unit to Rs.1.10 per unit, as done in the case of Tarbela dam and Ghazi Barotha hydelpower projects, situated in KPK and Punjab²¹, respectively.

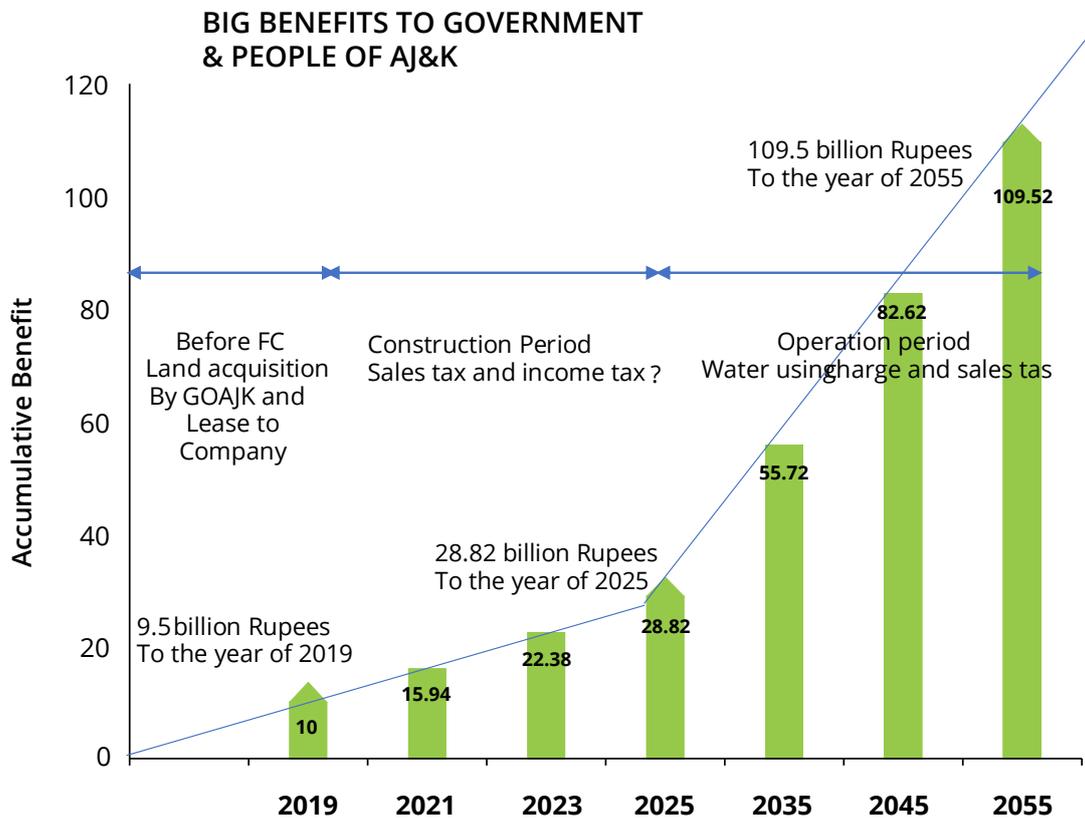
Additionally, it has also been underlined that KHPL, the construction company, would keep the administrative and operational rights

of the project to itself but will be bound to hand them over to AJ&K after thirty years of its completion. This shall again mark a new era as AJ&K has never enjoyed such rights in the case of mega power projects built on its soil.

Direct Economic Benefits of the project:

As depicted in the graph below, the project is estimated to generate huge revenue for the government of AJ&K and is poised perfectly in enabling it to present surplus annual budgets in the years ahead.

According to conservative estimates, the project would help AJ&K earn Rs.6 million on daily and Rs.2.19 billion on annual basis.



Source: “Social & Environmental Matters of 1124MW Kohala Hydro Power Project”, Kohala Hydro Company (Private) Limited

Challenges to Environment:

Construction work on the project has remained suspended since December 2018 due to the public concern over its ecological impact. Civil society and political leadership of AJ&K have demanded revisiting the construction design of the Kohala hydropower project to avoid recurrence of environmental hazards being faced by people in the wake of the commissioning of Neelum-Jhelum Hydropower Project (NJHP).

Civil society and political leadership both apprehend that diversion of the River Jhelum through a tunnel would only make the matters worse for the people of Muzaffarabad and its adjoining areas, as happened in the case of NJHP.

“We would like the feasibility and construction pattern of Kohala project revisited so that we don’t face similar environmental problems. At a time when technology has advanced greatly, why not produce electricity from the run of river instead of diversions. At the moment, 20 cumec water is being released in Neelum River from Nauseri while another 10 cumec is being added to it by the downstream tributaries. But still insufficient amount of water.

Just imagine what this river would have been like if there was nine cumec discharge at Nauseri.

Iftikhar Gilani, Minister Government of AJ&K

“

A group of 28 civil society activists has also filed a writ petition in the AJK High Court, maintaining that since, “WAPDA has violated the conditions of the No Objection Certificate (NOC) issued by the AJ&K Environmental Protection Agency (EPA), the same should be declared redundant and status quo ante be ordered to be restored on NJHP till the signing of an agreement between the AJ&K government and WAPDA.”

”

Learning a lesson from Neelum-Jhelum Project:

Operational since August 2018, the Neelum-Jhelum hydropower project has been under scrutiny for causing several environmental issues in and around Muzaffarabad. The related construction company as well as WAPDA officials maintain that Kohala Project has three distinct features which make it different from the former:

- ◆ The minimum ecological flow i.e. 30m/s at Kohala Project is three times higher than 9m/s at Neelum-Jhelum Project with less number of residents settled along the river.
- ◆ The most advanced designing idea of E-flow Generators has been set at the dam site to ensure minimum i.e. 30m/s water flow supplied to Muzaffarabad, with average monthly flow of 68m/s which has been made possible for the first time in Pakistan. It is a very latest and advanced design also operational in China and the world at large.
- ◆ Flushing water technology is used in Kohala Project to decrease the amount of sand accumulated in front of the dam through the desander technology used by N-J HPP. Hence, Kohala can produce two times more than 1,000 m/s flushing discharge in summer to dilute the sewerage along the river downstream in order to keep the river clean and unblocked.²² (Kohala Hydro Company (Private) Limited, 2018)

Implications of Prolonged Controversy on the Issue:

Notwithstanding the projected economic benefits and returns, Kohala project has remained in limbo because of the rising controversy about its purported impact on the environment. While the construction company of it has categorically dismissed the clamors for redesigning of the project as "technically not possible", both the government of AJ&K and the civil society stand disinclined to let the project kick off under present circumstances.

As the matter is sub-judiced, it seems that in the absence of any consensus building efforts, the project can be put on back burner, resulting into its enhanced cost with each passing day.

3. A Gateway to Regional Connectivity

CPEC is essentially a trans-continental project aimed at global connectivity and economic prosperity. With massive potential, this initiative covers 68 countries and involves an investment of over \$800 billion. After the completion of various projects, such as, M4 and SEZ at Mirpur, the erstwhile State of Jammu and Kashmir is also poised to emerge as a better inter-linked region to register economic uplift, alongside the revival of old trade routes, unhindered people-to-people contact and an amicable settlement of political irritants.

3.1 Context of Connectivity Question

As the main artery of CPEC passes through Gilgit-Baltistan, it is expected that the project would pave the way for regional connectivity and enhanced cooperation in different sectors among different parts of the erstwhile State of Kashmir: AJ&K, GB and Indian side of Kashmir.

3.2 Regional connectivity between AJ&K and GB

AJ&K and GB are not interconnected with each other through a road network. Hence, they stand as two separate entities at the moment. The price of this dis-connectivity has always been quite heavy as the two units have failed to grow and develop, especially politically and economically, in tandem. For instance, AJ&K attained a political system in accordance with the Act 1974 (htt19), the first significant political empowerment in GB took place much later through GB Self-governance Order 2009.²³

As M4 will be linked with the Karakorum Highway through KPK, people-to-people contact and trade relations are expected to develop on firm basis between the two sides. A strong likelihood is that it would exert extra-pressure on the governments of Pakistan and AJ&K to develop a direct land link between AJ&K and GB through the construction of Neelum-Astore Valley Road. The project remains in doldrums, despite the preparation of its feasibility and pre-feasibility report back in 2017.²⁴ Once established, it will be an alternate to the Karakorum Highway.

Neelum-Astore Valley Road

This road is aimed at linking Shounter in Neelum with Rattu in Gilgit through a 12.68km long road tunnel. Shounter is the boundary between Neelum Valley, AJ&K and Rattu, Astore, Gilgit-Baltistan. The approximate length of this road is about 26km. The road shall cut short the travel distance between AJ&K and GB to at least seven hours. In past, this route was the shortest way for the people to travel on mules and donkeys in order to transport goods. The people of Gilgit-Baltistan and Azad Jammu & Kashmir desire to add this project in China Pakistan Economic Corridor (CPEC).

3.3 People to People and Trade Linkages across the LoC

People-to-people contact and trade across the LoC were opened in 2005 and 2008, respectively, following procrastinated negotiations between the then India-Pakistan governments. Through a special mechanism, trade and travelling between two sides of the divided Kashmir were facilitated through various crossing points at LoC.

Despite all odds and disruptions, people-to-people contact and trade have continued through these crossing points since 2008. Over a period of time, traders across the divide have created joint forums to help sustain the existing barter trade and pushed their respective governments to create a more enabling environment in order to facilitate and promote trade across the divide. Jammu Kashmir Joint Chamber

of Commerce and Industries (JK-JCCI), a joint body of traders across the LoC, and local trade bodies on respective sides, have played an important role in sustaining this trade despite lows and highs in the relationship between India and Pakistan.

Likewise, improved trade infrastructure, including roads and transportation, can further enhance the opportunity of enhancing cross-LoC trade and travel, thus paving the way for strengthening ties between the two sides of Kashmir. In hindsight the proposed road networks through CPEC carries huge potential to benefit and expand the horizon of cross LoC trade.

The two sides of Kashmir would be in a better position to have access to bigger markets in Pakistan, China and the Central Asia. Interestingly, all the crossing points, except Chilliana-Teetwal, are located in close proximity to M4, offering a handy opportunity to make the best use of this network for import and export of tradable items.

Crossing points

There are three main crossing points on the LoC currently operational. From north to south, these are as follows:

Chakothe-Salamabad

This crossing point is located on the road between Chakothe and Uri along the LoC. It is a major route for cross-LoC trade and travel. The construction of M4 would provide a short and hassle-free network to the traders to fetch from and sell out tradable items in AJ&K, Pakistan and other countries linked up with CPEC in general and, China and Central Asia in particular.

Tetrinote-Chakan Da Bagh

This is the road that connects Kotli and Tatrinote in Pakistan side of the LoC to the Indian side of the divided Poonch district of Jammu and Kashmir through Chakan Da Bagh crossing point. It is a major route for cross LoC trade and travel.

Chilliana-Teetwal

The Teetwal crossing is across the Neelum River between Muzaffarabad, AJ&K, and Kupwara on the Indian side of Kashmir. It is usually open only during the summer months and, in contrast to the other two crossings, is open only for the movement of people and not for trade.

Further crossings

Two further crossings are also present across the LoC. One is located at Haji Pir Pass and the other one near Tattapani. However, these are currently not operational.

3.4 Revival of Silk Routes

The trade connections between erstwhile State of Jammu and Kashmir and the Central Asian Republics (CARs) have always been indirect as the two sides did not share common borders. Different silk routes were in fact used to import and export different items between the two sides. Two of them i.e. Srinagar-Ladakh and Srinagar-Karakorum Pass- remained the pivot of them throughout the history.

Both of these routes carry an extra importance for obvious reasons. The Srinagar-Ladakh route provides India with an open opportunity to become a part of OBOR and develop links with the Central Asian Republics (CARs) in order to meet its rising oil and gas requirements.

On the other hand, Srinagar-Karakorum Pass route, commonly known as the Jhelum Valley road, has remained a popular and busy outlet for the exchange of goods and tourism for ages. It is a short and all-weather route, opted by famous saint Shah-e-Hamdan to land in Kashmir in 1372. It is expected that the traders using crossing points across LoC for trade would have an ample access to this route to reach the markets of China, CARs and beyond.

“The revival of Jhelum Valley Road and Silk Route can open up new markets like China and Central Asia for the people from both sides of the divide. Revival of Silk Route from Kashmir would reinforce Sufi traditions, multi-culturalism and people-to-people contact”.

Prof. Dr. Riyaz Punjabi, VC Kashmir University, Srinagar



Silk Route in Han Dynasty (206 BC–24 AD)



Silk Route in Tang Dynasty (618–907)

Conclusion

AJ&K-centered CPEC projects have an enormous potential to uplift the socio- economic conditions of the inhabitants of this region. Isolated and less integrated, AJ&K clearly needs a robust and reliable communication network and an industrial base to catch up with its adjoining areas. CPEC offers an opportunity to link AJ&K up with the outside world and utilize indigenous resources to attain self-reliance and sustainability.

Hydropower and tourism are the backbone of the economy of AJ&K. According to conservative estimates, AJ&K would earn Rs.2.19 billion per annum after the construction of Kohala Hydropower Project. In the same vein, the construction of SEZ at Mirpur is also poised to provide a strong industrial base to AJ&K and help it become an exporter, rather than a mere consumer- oriented society. Last but not the least, M4 project is destined to provide the much needed network to interconnect different parts of AJ&K, besides linking it with the outside world through Karakorum Highway.

It, however, also remains a fact that with the exception of Karot Hydropower Project; work on the other proposed projects has not been initiated yet, primarily because of the non-release of funds by the Federal government or controversies regarding the project design and the ensuing environmental issues. Besides political and social repercussions, it is also bound to hike the estimated cost of these projects with the passage of time. Worst, a strong likelihood is that they would be politicized by different vested groups and put on the backburner at the cost of the economic prosperity and regional connectivity of AJ&K.

Recommendations

- ◆ A well concerted and thought out campaign should be launched to develop consensus on CPEC projects in AJ&K. It should involve an open, frank and knowledge-based discussion on the need, potential benefits and implications, if any, of these projects, and also as how to address them in a time bound manner.
- ◆ CPEC projects should not be allowed to become a victim of political expediency as they are providing AJ&K with an opportunity to develop itself at solid bases and link up with the outside world for the first time.
- ◆ The government of AJ&K should initiate the construction of a dry port and an international airport as a part of SEZ at Mirpur. It would meet the long held demand of the UK-based Kashmiri diaspora which will consequently attract them to invest in the industrial sector at Mirpur
- ◆ The governments of Pakistan and AJ&K should take joint steps to allay the concerns of the citizens of Muzaffarabad regarding the environmental impact of the proposed Kohala Project. Brushing them aside would only give way to mistrust and delay in the timely completion of a project destined to generate a tremendous amount of revenue for AJ&K.
- ◆ The government of AJ&K should also take steps for the inclusion of Neelum-Astore Valley Road and Tourism Corridor in AJ&K into the ambit of CPEC.
- ◆ Steps should also be taken to revive the varied old links of Kashmir, for that matter, AJ&K, with the Central Asian States through CPEC. It would have a salubrious impact on the tourism promotion initiatives of the AJ&K government.

Acronyms

AJ&K	Azad Jammu & Kashmir
BOOT	Build-Own-Operate-Transfer
CPEC	China-Pakistan Economic Corridor
CSAIL	China Three Gorges South Asia Investment
HPP	Hydro Power Project
KHCL	Kohala Hydro Company (Private) Limited
KPCL	Karot Power Company Limited
LoC	Line of Control
M4	Mansehra-Muzaffarabad-Mirpur-Mangla Expressway
OBOR	One Belt One Road
SEZ	Special Economic Zone
WAPDA	Water and Power Development Authority

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The report "CPEC in Azad Jammu & Kashmir: A Gateway to Regional Connectivity & Beyond", is a pioneering research about the fast-changing and emerging realities of the region in the public domain.

It is aimed at enhancing citizens' understanding about AJ&K and its socio-economic landscape in the context of evolving prospects. It is expected that 10 years down the line, AJ&K will be a quite prosperous and connected region, provided peace along the Line of Control (LoC) is ensured and present efforts to develop AJ&K remain uninterrupted and sustained.

The author, Sabur Ali Sayyid, travelled across AJ&K, having in-depth discussions with the stakeholders.

He has put together a fascinating account along with self-explained data by using quantitative and qualitative research methods. I am sure this study will lead to many more publications on the subject.

Ershad Mahmud, Executive Director
Centre for Peace, Development and Reforms (CPDR)



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