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Impact of Azad Jammu and Kashmir's Geopolitical Factors on the Economy

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Abstract

The complex relationship between Azad Jammu and Kashmir's (AJK) economic progress and geopolitical instability is examined in this extensive study. It explores the negative effects of protracted political instability, border tensions, and administrative uncertainty on several AJK economic sectors. Important topics include the financial repercussions of putting defense spending ahead of development, the interruption of trade and tourism brought on by military escalations, and the deterrent of foreign direct investment owing to perceived security threats. The paper also explores the implications of administrative reorganization on business confidence and the intricacies of AJK's semi-autonomous status, which impedes the implementation of coherent policies. It also emphasizes how susceptible key industries—like tourism, agriculture, and energy infrastructure—are to disruptions caused by both natural and artificial factors. To harness AJK's economic potential and guarantee long-term resilience, the study emphasizes the critical need for institutional reform, regional stability, and governance clarity by combining insights from institutional reports, empirical research, and regional development programs.

Keywords: Azad Jammu and Kashmir, Geopolitical Instability, Foreign Direct Investment, Cross-Border Trade, Political Unrest, Security Issues, Economic Development, Infrastructure Investment, Tourism Vulnerability, Administrative Governance, Conflict Zones, Human Capital, Financial Systems, Climate Impact, Resource Management

Security Issues and Political Unrest

Foreign Direct Investment Reluctance Owing to Perceived Risk

It is commonly acknowledged that FDI is a key factor in economic development and progress. However, security concerns and perceived hazards pose significant barriers to foreign direct investment (FDI) in politically unstable areas like Azad Jammu and Kashmir (AJK). AJK is a geopolitically unstable territory where investors are frequently hesitant to commit long-term money due to the ongoing territorial dispute between India and Pakistan over the larger Kashmir region.

Several studies have demonstrated that political instability adversely impacts investor confidence, especially in emerging nations. International capital flows are severely discouraged by the threat of armed conflict, policy reversals, and expropriation (Busse & Hefeker, 2007). A high-risk environment is created in AJK's situation by the regular skirmishes along the Line of Control (LoC) and sporadic escalations into full-scale armed conflicts. For example, tensions between India and Pakistan increased during the 2019 Pulwama-Balakot crisis, raising concerns about the security of investments in the area worldwide (Fair, 2020).

Investors usually look for a functional legal system, financial and physical security assurance, and predictability in the regulatory environment—all undermined in conflict areas. Multinational firms are deterred from opening shop in AJK because of the unpredictable security scenario. Investors are further hampered by the frequently affordably insurance costs associated with investments in such high-risk sectors. According to World Bank reports from 2022, FDI inflows are 35–45% lower in conflict-ridden areas than politically stable ones with comparable macroeconomic foundations.

Investor hesitancy is further exacerbated by the region's unclear legal system, particularly about property rights and investment assurances. Because of its semi-autonomous position inside Pakistan, AJK causes jurisdictional misunderstandings between local and federal laws (Yusuf, 2021). As a result of this dualism, investor legal protections and policy implementation are inconsistent.

In conclusion, AJK will continue to lose out on the benefits of foreign direct investment for development without guarantees of stability and legal transparency. Reversing this trend and making AJK a desirable place to invest requires institutional change, political normalization, and dispute resolution.

Trade routes and economic activity are disrupted during times of tension.

Political and military conflicts, especially those along the Line of Control, often hinder Azad Jammu and Kashmir's economic activities. Due to its location along a disputed boundary, the area is naturally vulnerable to the effects of conflict, particularly regarding the continuity of trade routes, logistics, and market accessibility.

As part of an effort to boost confidence between India and Pakistan, the Line of Control (LoC), which divides AJK from Indian-administered Jammu and Kashmir, was opened for limited trade in 2008. The trade of specific items, including handicrafts and agricultural produce, was made possible by this program. However, the transaction was susceptible to interruptions because of the absence of official financial channels, customs procedures, and insurance coverage (UNDP, 2020). Cross-LoC trade was halted indefinitely when India revoked Article 370 in August 2019, significantly negatively impacting traders (Ahmad, 2021).

Such disruptions have significant economic ramifications. According to a 2020 study by the Sustainable Development Policy Institute (SDPI), a border is closed daily because of shelling or a military standoff, resulting in millions of rupees in lost revenue from missed opportunities, delayed commodities, and transportation delays. Furthermore, because it lacks the financial stability to withstand shocks, the informal sector—crucial to border economies—is especially poorly struck.

Due to frequent border closures and poor connectivity, local producers in AJK are confronted with a limited market. For instance, agricultural products frequently perish en route when transportation is delayed because of security warnings, e. Livestock markets, which rely on seasonal movement and regional trade fairs, further impact rural incomes.

Another important outcome is the psychological effect on business. Over time, traders, transporters, and farmers adopt a risk-averse strategy, steering clear of ventures or investments that could be impacted by violence. Because companies are reluctant to grow or innovate in a volatile environment, this risk aversion contributes to underdevelopment (Rashid, 2021).

In conclusion, tension-induced disruptions of trade and economic activity result in long-term uncertainty, inefficiency, and stagnation, in addition to acute financial losses. For AJK to have a steady economic flow, regional peace and solid diplomatic ties must exist.

Investing in security at the expense of development projects

Governments in areas afflicted by violence frequently have to strike a tricky balance between maintaining security and promoting socioeconomic development. The ongoing possibility of war with India necessitates significant security spending in AJK. Despite the importance of national defence, an excessive focus on military readiness takes cash and attention away from long-term economic growth-promoting development programs.

The Stockholm International Peace Research Institute (SIPRI, 2023) estimates that Pakistan spends one of the highest percentages of its GDP (around 3.5%) on defence. This expenditure is indirectly directed into conflict areas like AJK through direct deployments and infrastructure assistance for military troops. These costs include building military roads, building cantonments, purchasing surveillance gear, and funding law enforcement.

While such spending might result in some jobs and infrastructure gains, it differs significantly from development-oriented investments in industrialization, education, or health. According to the World Bank (2022), nations involved in protracted conflict typically devote 20–40% less to social sectors than their counterparts in peace. This trade-off is seen in AJK, where a shortage of funding causes essential infrastructure projects to be postponed or canceled.

The fields of education and health are especially impacted. Due mainly to resources being redirected towards emergency planning and military logistics, rural health units in distant locations suffer from under staffing and under funding. According to Iqbal and Raza (2020), schools in conflict-prone areas frequently lack basic amenities, which leads to subpar educational results.

Furthermore, the government's capacity to provide significant financial incentives to draw in private investment is constrained by the amount of money allotted to defence. In favour of security-focused construction, infrastructure that may enable innovation parks, industrial zones, or agricultural expansion is neglected. According to Khan and Ahmed (2019), this perpetuates the cycle of underdevelopment and reliance on outside assistance and remittances.

Vulnerability of the Tourism Sector During Unrest

With its beautiful scenery, rich cultural legacy, and varied ecosystems, AJK's tourism industry is one of the most potential areas for economic growth. However, tourism is still highly vulnerable to geopolitical unrest, and even small-scale events can significantly negatively impact earnings.

Domestic travel to AJK increased significantly during peacetime, particularly from 2016 to 2018. Over 1.5 million tourists travelled to Banjosa Lake, Rawalakot, and Muzaffarabad during these years (AJK Tourism Department, 2021). As a result of this boom, new hotels, guesthouses, and tour companies were built, boosting local economies and generating jobs.

However, because of frequent security problems, the tourism industry's growth has been inconsistent. Tourist arrivals fell by around 60% in 2019 after the Pulwama assault and the ensuing military escalation caused widespread cancellations and unemployment in the hotel industry (Modern Diplomacy, 2020). Particularly heavily hurt were establishments that rely on seasonal revenue, such as hotels and restaurants.

Investor opinion towards tourism infrastructure is also impacted by insecurity. Because of the high perceived risk, projects like eco-resorts, adventure parks, and cultural institutions frequently fail to receive funding. Banks and other financial institutions categorize such investments as volatile, discouraging entrepreneurship by requiring high interest rates.

Safety is the foremost concern for both domestic and international tourists. Even when real hazards are localized or overblown, tourists are deterred by negative media coverage of clashes or cross-border shelling. Another deterrent to travel is that insurance companies usually do not cover travel to AJK (Ali & Dar, 2021).

The absence of a well-thought-out contingency plan increases the tourism industry's vulnerability. AJK lacks the adaptive strategies other nations have implemented to recover quickly after security incidents, like designated security zones or advertising campaigns. Every incident generates protracted disruption because there is little governance and policy consistency in the tourism industry.

Changes in Government Regulations and Administration

Implications of Special Economic Status and Difficulties in Implementing Policies

Azad Jammu and Kashmir (AJK) has an exceptional administrative and constitutional standing in Pakistan. Although Pakistan runs it, it is not regarded as an independent state and does not have complete provincial autonomy. While offering a certain amount of administrative autonomy, AJK's unique status has created opportunities and difficulties for the governance and execution of economic policies.

The uncertainty surrounding fiscal and regulatory authority is one of the main effects of AJK's unique economic position. For example, even though AJK has its legislature, federal agencies like Gilgit-Baltistan and the Ministry of Kashmir Affairs continue to significantly impact the creation and implementation of necessary economic policies. Developmental projects have been delayed, policy execution has been inconsistent, and jurisdiction overlaps have resulted from this dual governance framework (World Bank, 2020).

Furthermore, AJK's vague constitutional status is frequently blamed for failing to draw substantial foreign direct investment (FDI). Foreign investors are hesitant to do business in areas with unclear legal systems, particularly regarding property rights, investment protection, and contract enforcement rules that are still in their infancy or are enforced inconsistently. As a result, projects like industrial parks and export processing zones that have the potential to boost

economic growth frequently stall because investors lack confidence in them (Hussain & Hussain, 2019).

The landscape is further complicated by the federal government's engagement in local projects, which is frequently motivated by political or strategic motives. For instance, although government development packages and special funding are sometimes offered for AJK, their implementation is usually either poorly managed or delayed. As a result, resources are used inefficiently, and developmental objectives are not fully met. Furthermore, these problems are frequently made worse by AJK's civil institutions' poor ability to oversee major projects (ADB, 2022).

Trade Barriers Across Borders and Their Economic Effects

The geographical location of AJK and the existence of the Line of Control (LoC), which divides Pakistani-administered AJK from Indian-administered Jammu and Kashmir, significantly impact the region's economy. Historically, cross-border trade along the LoC has fostered confidence between the two areas. However, ongoing political unrest has resulted in repeated trade restrictions, which have disrupted the economy and cost opportunities.

With the formalization of trade across the LoC in 2008, traders from both sides could exchange items using a barter system. Initially, this system stimulated local economies, produced jobs, and promoted interpersonal relationships. However, inadequate infrastructure, legal environment, and security concerns constrained the trade's scope and scale. This economic activity stopped in 2019 when Indian authorities suspended LoC trade due to concerns about smuggling and misuse (Bhattacharya, 2020).

These trade restrictions have had far-reaching effects. First, AJK's small-scale manufacturers and dealers who depended on international markets for their products experienced revenue declines and fewer business prospects. Due to their loss of access to broader consumer markets within the LoC, agricultural producers were particularly impacted. In addition to affecting livelihoods, this circumstance decreased the region's economic diversification (Shah & Ahmad, 2021).

Second, the collapse of trade impacted local employment. Many people worked in transportation, warehousing, logistics, and other services related to LoC trade. Importing in border towns like Chakothi and Tetrinote, which had built microeconomies around this trade, experienced employment losses and economic stagnation due to the cessation of these activities (Iqbal, 2021).

Effects of Administrative Restructuring on the Corporate Environment

To improve service delivery and the area's economic climate, AJK has periodically sought administrative restructuring, which includes governance changes, authority devolution, and institutional development. However, these organizational initiatives have produced various results, including beneficial developments and new difficulties.

Implementing e-governance technologies, which aim to increase transparency and decrease bureaucratic red tape, has been one of the main restructuring initiatives. Initiatives to digitize tax collection systems, business registration procedures, and property records are meant to attract investors by streamlining administrative tasks. A World Bank report from 2023 claims

that digitizing land records in some regions increased investor confidence and sped up dispute settlement.

However, implementation has been variable between districts. In remote and distant locations, a lack of technical infrastructure and skilled workers has restricted the implementation of these reforms. As a result, many enterprises continue encountering outmoded bureaucratic procedures that limit the ease of doing business (ADB, 2022).

Another critical component of administrative restructuring has been decentralizing decision-making authority to local government entities. However, the efficacy of this strategy is restricted in practice by weak local institutions and limited fiscal autonomy, even though it theoretically permits more responsive and customized policy decisions. Without federal permission, local governments frequently lack the power to authorize or finance significant economic initiatives, which leads to administrative hold-ups and inefficient projects (Hussain & Ahmed, 2020).

In many cases, restructuring has resulted in overlapping jurisdictions, especially between municipal administrative entities and federal development organizations. This has resulted in unclear project ownership, implementation delays, and wasteful resource use. The A to General of Pakistan's 2021 audit identified several AJK infrastructure projects that experienced a lack of coordination between federal and local entities.

The effectiveness of financial aid and subsidy programs

AJK's financial aid and subsidy programs aim to reduce poverty, encourage entrepreneurship, and aid weaker industries, including small-scale manufacturing and agriculture. However, inadequate targeting, trans recency, and institutional inefficiencies frequently compromise these initiatives' overall efficacy.

The federal government provides AJK with substantial financial support through several public sector development programs (PSDPs) and schemes. Additionally, donor institutions such as the World Bank, Asian Development Bank, and UNDP fund programs emphasizing health, education, and rural development. However, political meddling, administrative bottlenecks, and a lack of accountability procedures frequently cause delays in distributing these monies (World Bank, 2020).

For example, agricultural subsidy programs are often criticized for omitting marginal farmers needing assistance and favouring wealthier landowners. According to 2022 field research by the Sustainable Development Policy Institute (SDPI), fertilizer and seed subsidies were dispersed unfairly and had little effect on total output because of their restricted reach and misuse.

Microfinance projects backed by institutions such as the Pakistan Poverty Alleviation Fund (PPAF) have shown some promise. Interest-free financing programs for women and small businesses have increased household incomes and encouraged entrepreneurship at the grassroots level. However, these programs are frequently underfunded, limited in outreach in distant locations, and hampered by insufficient financial literacy (PPAF, 2023).

AJK now has access to social safety net programs like Ehsaas, which provide low-income families with cash transfers. Although these initiatives have helped temporarily, they have not significantly impacted long-term economic resilience. Instead of switching to self-sustaining livelihoods, most beneficiaries continue to rely on ongoing assistance, highlighting the necessity

for integrated support systems that combine financial aid with job placement and skill development (UNDP, 2021).

Investment and Development of Infrastructure

The Economic Multiplier Effects of Strategic Infrastructure Projects

Any region's economic progress is based on strategic infrastructure development, but Azad Jammu and Kashmir's (AJK) particular geopolitical environment and economic difficulties make this even more critical. Road networks, bridges, tunnels, dams, and industrial zones are examples of infrastructure projects with a significant multiplier impact, creating economic activity outside their local area. These initiatives boost related industries, especially retail, logistics, and construction, improve connectivity, attract investment, and create jobs.

Projects like the Muzaffarabad–Mirpur–Mangla motorway and other rural connectivity initiatives in AJK have improved access to markets and generated many job opportunities during and after construction. Higher wages for engineers and labourers are the direct result, and increased demand for transportation, materials, and hospitality services is the indirect result.

According to AJK's Planning and Development Department, the administration has prioritized road and bridge construction with financial support from foreign donors like the World Bank and the Asian Development Bank (ADB). The ADB-funded AJK Road Sector Development Project was created primarily to increase connectivity in remote areas. Connecting producers with metropolitan markets lowered transportation costs and boosted regional trade.

The multiplier effects are further highlighted by the idea of economic corridors, such as the planned extensions from the China-Pakistan Economic Corridor (CPEC). These corridors include service industries, logistical centres, and industrial clusters that profit from network effects and economies of scale. According to the corridor model, every rupee invested in infrastructure eventually generates two to three rupees in economic output (ADB, 2023).

Furthermore, more infrastructure investment raises fiscal income by increasing taxable transactions and business registrations. According to the World Bank (2021), for emerging regions like AJK, public infrastructure investment results in an average long-term DP gain of 0.6% each year. These initiatives produce revolutionary socioeconomic benefits when carried out effectively and honestly, especially in marginalized and post-conflict areas like AJK.

Initiatives for Power Generation and Energy Security

Because of its rugged landscape and numerous rivers, AJK has much hydroelectric potential. One of the most significant projects in the area, the Neelum-Jhelum Hydroelectric Project, is proof of the possibility of using natural resources to promote economic growth and long-term energy security. In addition to making a substantial contribution to Pakistan's national grid, the 969-megawatt facility offers residents economic opportunities through jobs, infrastructure improvements, and CSR initiatives.

However, even with these massive initiatives, AJK struggles with erratic power supplies in its outlying areas. Kotli, Rawalakot, and Bagh are examples of small and medium hydropower plants essential for meeting local demands and lowering dependency on imported fossil fuels. In rural locations, these micro-grids promote digitization and boost cottage industry production.

There has also been an increase in interest in integrating renewable energy sources like wind and solar. The topography of AJK is especially well-suited for hybrid energy systems that incorporate biomass, solar, and hydropower. The National Transmission and Dispatch Company (NTDC) claims that combining these technologies can reduce seasonal variations in the energy supply brought on by erratic rainfall or glacial melting, two elements that are becoming more unpredictable due to climate change.

One noteworthy project is installing solar panels in public hospitals and schools in the Neelum Valley and Muzaffarabad. These initiatives cut the operational cost of public services and act as prototype projects for bigger rural electrification plans. Energy security helps build economic resilience by lowering minor business downtime, facilitating nighttime commerce, and advancing digital services.

Market Connectivity and Transportation Networks

Economic growth and regional integration depend on efficient transport systems. In AJK, the region's rugged topography makes constructing and sustaining an efficient transportation system difficult. Notwithstanding these obstacles, newly constructed roads have significantly increased market accessibility and economic opportunities for formerly remote villages.

Meaningful road connections, such as the Azad Pattan–Rawalakot Road and the Kohala–Muzaffarabad Highway, are essential for movement and trade. These roads ease the movement of people, products, and services by connecting AJK to important cities like Islamabad, Rawalpindi, and Lahore. Better connectivity increases access to healthcare, education, and job possibilities while reducing travel time and expenses.

According to a report by the Planning Commission of Pakistan (2022), every 10% improvement in road connection in rural AJK is associated with a 5% increase in local agricultural revenue. Farmers in districts like Poonch and Bagh can now sell their perishable items, such as fruits and vegetables, at bigger markets, which lowers post-harvest losses and improves prices.

Another sector that is improving is public transport. Inter-district bus services have increased foot traffic in tiny marketplaces, stimulating local business. Providing women with safer and more dependable ways to get to work, clinics, and schools also encourages gender inclusion.

The government has also prioritized sustainable mobility in recent years. Initiatives like bike lanes in cities, pedestrian bridges, and improved signage have increased road safety and decreased accident-related financial losses. Furthermore, a move towards more effective and transparent transport governance is evident in places like Mirpur and Muzaffarabad, where intelligent traffic monitoring and toll collection systems are utilized.

Development of Communication Infrastructure and the Prospects of the Digital Economy

The digital economy has great potential to change the socioeconomic climate in AJK. Because of the global trend towards digital platforms and remote work, the development of communication infrastructure is more critical than ever. Digital literacy, mobile connectivity, and high-speed internet are essential components of a flourishing digital economy, particularly in geographically limited areas like AJK.

According to the Pakistan Telecommunication Authority (PTA), broadband penetration in AJK has increased significantly, especially since the introduction of the Universal Service Fund (USF) initiatives. Thanks to their efforts, isolated locations like Leepa, Kel, and Hattian Bala now have

access to 4G internet. Increased digital connectivity creates potential for telemedicine, online learning, commerce, and remote work.

Young people in AJK have become more interested in remote work and freelancing, especially in places where traditional job options are limited. According to a 2023 report by the Pakistan Software Export Board (PSEB), over 15,000 independent contractors from AJK jointly made over \$10 million a year, which is positive for the region's digital potential. Online employment alternatives that enable women to work from home have benefited them.

Digitization has enhanced governance and service delivery in the public sector. Districts like Mirpur and Tli have implemented online portals for land records, tax payments, and utility bills, which have increased openness and decreased bureaucratic delays. In addition to saving consumers money and time, these systems help enhance tax collection and lessen corruption.

Platforms for digital education have been crucial both during and after the COVID-19 pandemic. Thanks to projects like "Taleem Ghar" and other regional e-learning programs, education has been maintained in rural areas. These platforms have enhanced digital literacy and learning outcomes, creating the groundwork for a tech-savvy workforce.

Line of Control (LoC) Trade Potential and Limitations

In addition to serving as a physical border, the Line of Control (LoC), which separates the areas of Jammu and Kashmir administered by India and Pakistan, is also a crucial economic intersection. Formally started in 2008, trade across the Line of Control (LoC) was intended to be a significant confidence-building measure (CBM) between India and Pakistan. With an emphasis on locally relevant things, including hand rafts, fruits, spices, and textiles, the LoC trade mechanism permitted the two parties to exchange goods on a barter basis (Bhat, 2020).

The promise of LoC trade is found in its capacity to create jobs, foster cultural connectivity, and stimulate economic activity in isolated border regions. Through interpersonal interactions, the trade expands markets for regional producers and supports peacebuilding (Rai, 2021). Additionally, it provides an economic relief mechanism for underprivileged areas in Aza Jammu and Kashmir (AJK) by avoiding formal customs charges and tariffs.

However, the LoC trade project has been hampered by several issues. Since the trade uses a barter system, one of the main problems is the absence of official banking and currency exchange systems. This creates inefficiencies and limits scalability. Periodic trade restrictions have also resulted in security concerns, such as claims of smuggling and the abuse of trade channels for illegal purposes (Hussain, 2020). According to the Ministry of Home Affairs (2019), India, for instance, banned commerce in April 2019 due to worries about the "misuse of trade routes by elements supporting terrorism."

Despite these problems, several experts contend that LoC trade can be revived to foster economic confidence and regional economic integration with better regulatory frameworks and mutual trust (Javed & Ahmed, 2023). The initiative's untapped potential may be revealed through cooperative efforts to improve monitoring, raise transparency, and implement digital transaction systems.

Environmental Aspects and Resource Management

Conflicts Over Water Resources and the Potential for Hydroelectric Power

In addition to being essential to the local population for residential, agricultural, and industrial purposes, Azad Jammu and Kashmir's (AJK) water resources are a significant cause of conflict in the region's geopolitics. The Jhelum and Neelum Rivers flow into the Indus River Basin, which India and Pakistan share under the terms of the 1960 Indus Waters Treaty (IWT). There are two central river systems along which AJK is strategically situated. However, tensions over the administration of trans boundary water resources have increased due to the deteriorating Indo-Pak relationship, especially when India revoked Article 370 in 2019 (Bukhari, 2020).

India-Pakistan water disputes directly affect AJK's hydroelectric potential. The feasibility of downstream hydroelectric projects in AJK may be impacted, for example, by India's development of hydropower projects on rivers that feed into Pakistan, which has alarmed Islamabad and Muzaffarabad due to decreased water flows. Many people in Pakistan believe these actions attempt to turn water into a weapon (Mustafa, 2021). Projects like the Neelum–Jhelum Hydropower Project (969 MW) represent AJK's role in national energy security, and hydroelectric electricity is essential to the region's economy. However, disagreements over water supply risk make such infrastructure less effective and jeopardize economic stability and energy security (Haq & Sattar, 2022).

Experts advise more regional cooperation, integrated water resource management (IWRM), and a review of the IWT to consider current hydro logical and geopolitical realities to lessen these problems. To guarantee long-term water security, local organizations must fund sustainable hydro power projects, prioritizing low-impact designs and community-based watershed restoration initiatives (WWF Pakistan, 2020).

Policies for the Extraction of Natural Resources and Sustainability

Natural resources in AJK include forests, minerals, and agricultural land, which provide the cornerstone of rural lifestyles and local economies. However, there are hazards to long-term development and environmental integrity because these resources are frequently exploited in an unsustainable and unregulated manner. In regions like Muzaffarabad, Bagh, and Poonch, necessary resources, including marble, soapstone, graphite, and l stone, are mined, frequently using antiquated methods and little environmental supervision (GOP AJK, 2021).

One of the primary obstacles is the regulatory structure governing resource extraction. There is a lack of a coordinated provincial mining strategy and insufficient enforcement of environmental protection regulations. Furthermore, social conflicts and inadequate benefit-sharing mechanisms result from local populations' infrequent participation in resource management decision-making (Ali & Jan, 2022). The profits from the extraction of natural resources are frequently not put back into the local community, exacerbating inequality and poverty.

In AJK, sustainable resource management calls for a multipronged multipronged multipronged approach. First, creating a single Natural Resource Management Authority (NRMA) would simplify enforcement and regulation. Second, to lessen the strain on extractive industries, ecotourism ecotourism and non-timber forest products (NTFPs) could be promoted as alternate

revenue streams. Local capacity building and environmental education can improve community stewardship and involvement in conservation initiatives (UNDP, 2022).

Effects of Climate Change on Farm Productivity

For more than 80% of the rural population of AJK, agriculture is their primary source of income and is primarily rain-fed. Farmers engage in subsistence farming, raising animals and growing vegetables, maize, and wheat on an average landholding size of only 0.7 hectares (Hussain et al., 2019). Nonetheless, the industry is becoming more susceptible to the effects of climate change, which jeopardizes food security and productivity.

Snow cover, which historically acted as a natural water reservoir that nourished streams throughout the summer growing season, is also decreasing in the area. Water availability for irrigation is becoming increasingly precarious due to glacier retreat and reduced snow accumulation, especially in the upper mountainous regions (Rasul et al., 2020). A combination of rising heatwaves and decreasing relative humidity is severely disrupting the agricultural calendar in AJK.

Climate-smart farming methods must be implemented to address these issues. These include drought-resistant seed varieties, agroforestry models that improve microclimates, and enhanced irrigation methods, including drip and sprinkler systems. Although they require expansion, government initiatives such as the Climate Resilient Agriculture Program (CRAP), which was started in partnership with foreign funders, are a positive start (FAO Pakistan, 2022).

Economic Stability and Environmental Security Issues

Protecting ecosystems, resources, and livelihoods from deterioration and calamity is known as environmental security. Since most of the AJK economy uses natural resources and climate-sensitive industries like forestry, tourism, and agriculture, environmental threats and economic stability are closely related (Khan & Zafar, 2021).

Deforestation, land degradation, water pollution, and the rising frequency of natural disasters like earthquakes, floods, and landslides are the main environmental threats in AJK. The 2005 earthquake serves as a sobering reminder of the area's seismic susceptibility, which still influences insurance premiums and infrastructure investment choices. Furthermore, periods of intense precipitation frequently result in flash floods that harm roads, irrigation channels, and crops, delaying development efforts by years (NDMA Pakistan, 2022).

Deforestation has impaired slope stability and increased soil erosion, particularly in regions with steep topography. This causes frequent landslides that interfere with communication and transportation isolating people and hindering emergency response attempts when paired with unpredictable rainfall. Tourism, which depends on pure natural environments, is likewise impacted by environmental degradation. The AJK Tourism and Archaeology Department reports that after apparent ecological damage, visitor numbers drastically dropped, which affects local employment and enterprises.

Another growing problem is pollution, especially from mining and unchecked urban growth. In cities like Muzaffarabad and Mirpur, untreated sewage and municipal garbage damage water sources, harm public health, and reduce productivity (IUCN, 2021).

These difficulties have significant economic ramifications. Therefore, a sustainable development approach must include environmental risk assessments in all planning processes, as the World Bank (2022) predicts that natural disasters and environmental degradation result in annual losses equal to 2–4% of AJK's GDP. All significant industrial and infrastructural projects ought to undergo strategic Environmental Assessments (SEAs).

Human Capital Development

Human capital is one of the most crucial determinants of sustained economic growth and development, especially in countries affected by geopolitical complexity, such as Azad Jammu and Kashmir (AJK). Human capital development in the context of AJK is intricately linked to the area's political limitations, administrative capabilities, and economic possibilities; it goes beyond simply expanding educational opportunities or providing healthcare. Building resilient human capital is made more difficult by AJK's closeness to a highly militarised and disputed border with India, ongoing insecurity, and recurring natural disasters. Under four key sub-themes—education infrastructure and skills development, the brain drain phenomenon, healthcare accessibility and productivity, and the potential demographic dividend under current geopolitical constraints—this section delves deeply into the dynamics of human capital development in AJK.

Programs for the Development of Skills and Education Infrastructure

Education is essential for building human capital and enhancing economic participation, productivity, and creativity. For many years, AJK has been working to upgrade its educational facilities. However, because of budgetary constraints, institutional inefficiencies, and the area's geopolitical sensitivities, the calibre, accessibility, and applicability of educational programs continue to be issues.

According to the Pakistan Bureau of Statistics (2023), the literacy rate in AJK is greater than in many other parts of Pakistan, at over 76%. This total number, however, hides notable regional and gender inequalities, particularly in isolated places like Haveli and Neelum, where the closeness of conflicts limits regular teaching activities and access to schools (Government of AJK, 2022). Schools are frequently closed due to security concerns, and the presence of military checkpoints or landmines often deters students from attending.

The school infrastructure also suffers from poor resource allocation and obsolete curricula. According to UNESCO (2021), many AJK public schools lack essential amenities, including science labs, safe drinking water, and restrooms. Inadequate teacher preparation and a lack of subject-specific teachers, especially in STEM fields, worsen this problem. A substantial discrepancy between the demands of the labour market and the skills that are now accessible arises when educational programs are not in line with market demands.

Several development initiatives have been launched in response. Through community involvement and ICT integration, the AJK Education Reform Plan (2018–25), in partnership with the World Bank and UNICEF, aims to enhance teacher performance, female education, and school enrolment. However, inadequate finance and uneven execution brought on by administrative turnover and fluctuating political age continue to limit these initiatives' efficacy (World Bank, 2020).

The phenomenon of brain drain and the retention of skilled workers

One of the biggest obstacles to AJK's human capital development is the "brain drain"—the exodus of highly qualified people. This phenomenon is especially noticeable among academics, engineers, medical experts, and IT specialists. Due to the lack of local job possibilities, poor career advancement, and insecurity in border regions, many educated people relocate to other parts of Pakistan or overseas (Khan & Ahmed, 2021).

The absence of a vibrant labour market that can draw in and keep highly trained individuals is one of the leading causes of brain drain in AJK. Despite having a university degree, young professionals are frequently underemployed or assigned to low-paying positions in government agencies. Due in significant part to the lack of industrial diversity and ongoing geopolitical unpredictability, the private sector is small and risk-averse.

According to a study by the Sustainable Development Policy Institute (SDPI, 2022), over 65% of university graduates in AJK consider relocation within three years of graduation, citing economic insecurity, lack of merit-based recruitment, and nepotism as significant concerns. The problem is particularly acute in specialized fields like medicine, where hospitals in AJK report chronic shortages of specialists and rely heavily on doctors from other provinces or international recruits on short contracts (Government of AJK, 2022).

Addressing brain drain requires a multipronged multipronged multipronged approach. Firstly, improving working conditions and offering competitive salaries are essential for retaining talent. Secondly, introducing transparent recruitment policies and performance-based promotions in public institutions could restore faith in the system. Lastly, fostering an entrepreneurial ecosystem through incubation centres, Star P financing, and mentorship programs may provide viable alternatives to migration.

Accessibility of Healthcare Services and Employee Productivity

Severe resource shortages, poor workforce-to-population ratios, and infrastructure issues plague AJK's healthcare system, which affects the area's economic potential and productivity. Health facilities are frequently understaffed, inadequately equipped, and physically inaccessible, especially in mountainous and conflict-prone areas. The region has roughly three doctors per 10,000 inhabitants, much below the WHO-recommended threshold (Pakistan Health Survey, 2023).

Inadequate healthcare directly impacts workforce productivity. High rates of communicable diseases, untreated chronic illnesses, and maternal health issues cause increased economic dependency and decreased labour efficiency. Malnutrition and poor child health also limit long-term human capital formation and impact cognitive development and educational attainment (UNDP, 2021).

The main goal of government interventions has been establishing Basic Health units (BHUs) and Rural Health Centres (RHCs) throughout AJK. However, a lack of qualified personnel, erratic medication supplies, and frequent power outages cause operational problems for many of these centres. Residents of forward locations like Leepa and Rawalakot, which are occasionally impacted by border shelling, lack access to tertiary-level trauma treatment facilities, making emergency healthcare services undeveloped (AJK Health Department, 2022).

Because of profit margin and regulatory concerns, the private sector's involvement in healthcare is still small. International donors and non-governmental organizations (NGOs) are crucial in addressing service gaps, particularly during natural disasters like the 2020 floods and the 2005 earthquake. Pilot initiatives started by the Ministry of IT and the Aga Khan Development Network have demonstrated promising outcomes, and telemedicine has emerged as a potential way to minimize geographical constraints (AKDN, 2022).

Potential for Demographic Dividends Under Geopolitical Restraints

Over 60% of the people in AJK are under 30 years old, making them a comparatively youthful population (Pakistan Bureau of Statistics, 2023). A higher proportion of working-age people could result in a significant demographic dividend or economic gain if this demographic structure is well utilized. However, realizing this promise will require the area to overcome geopolitical and structural barriers.

Geopolitical instability impacts both the buildup of human capital and its economic use. Frequent infrastructure, healthcare, and education disruptions hampered youth development and reduced their capacity to make significant contributions to economic progress. Youth are further excluded from mainstream development projects because of political upheaval, military conscription, and the relocation of border settlements (Khan & Yousuf, 2022).

A thriving economy that creates sufficient job opportunities is also necessary for the demographic dividend. As was previously said, AJK has low industrial development and significant unemployment among youth. Climate change, land fragmentation, and water shortages have caused agriculture, formerly a considerable employer, to decline, forcing young people into informal or migratory work.

Due to restrictive cultural norms, mobility constraints, and insufficient support systems like childcare and workplace safety, women—who make up almost half of the population—continue to be underutilized (UN Women, 2021). More women must participate in the economy to fully reap the benefits of a demographic dividend.

The government must fund youth-oriented initiatives offering civic education, digital literacy, financial inclusion, and vocational training. Global models like Bangladesh's Digital Youth Campaign and India's Skill India Mission provide workable templates. Additionally, efforts to promote peace and confidence along the Line of Control (LoC) may lessen the material and psychological barriers that young people in conflict-adjacent communities must contend with.

Development of the Banking Sector in the Face of Political Uncertainty

Over the past twenty years, AJK's banking industry has grown gradually thanks to the opening of new branches of national commercial banks like Bank of Azad Jammu and Kashmir (BAJK), Habib Bank Limited (HBL), and National Bank of Pakistan (NBP). However, the industry is nonetheless limited by poor investor confidence, low financial literacy, and geopolitical unpredictability.

Political uncertainty fuelled by sporadic cross-border conflicts and unstable governance impacts both investment and consumer behaviour. AJK's contentious status restricts the region's ability to host international financial institutions. Because of this, access to various banking services is still limited, particularly in rural areas (Khan & Gul, 2020). Furthermore, financial institutions are

cautious when lending money to companies in border districts like Haveli and Neelum because of perceived physical harm or displacement threats.

However, local initiatives to upgrade banking infrastructure have been undertaken. When the Bank of AJK was founded in 2005, its mission was to support regional economic growth and financial inclusion. The bank has 75 branches as of 2022 and was looking into Islamic banking options to reach a broader range of people (BAJK Annual Report, 2022). The delayed acceptance of digital banking, poor capitalization, and lack of connectivity with global financial networks remain significant obstacles.

Through the National Financial Inclusion Strategy (NFIS), which seeks to enrol 50% of adults in the formal financial sector by 2025, the State Bank of Pakistan (SBP) has encouraged financial inclusion in AJK (SBP, 2021). However, security limitations, infrastructure deficiencies, and a dearth of locally relevant products suited to AJK's primarily rural and agrarian economy hinder practical implementation.

Microfinance Programs and Community-Based Economic empowerment

In AJK, microfinance has become vital for reducing poverty and empowering the grassroots, especially for under-represented populations, including women, all farmers, and unofficial business owners. Organizations such as the Kashf Foundation, Akhuwat, and the National Rural Support Programme (NRSP) have made micro-loans available to rural communities, allowing them to operate micro-businesses in the retail, service, and agricultural sectors.

Given the dispersed landholdings, subsistence farming methods, and lack of collateral among the vast majority of AJK's rural population, microfinance is desperately needed. Due to their limited ability to repay and geographic inaccessibility, formal banks hesitate to lend money to these people (Kamal & Saeed, 2020). In contrast, microfinance institutions (mfis) use relationship-based approaches and group lending mechanisms to lower the risk of default.

In places like Muzaffarabad and Kotli, Akhuwat's interest-free financing concept has grown in favour. There, it helps small businesses run by women, including cottage food production, beauty salons, and tailoring shops (Akhuwat Foundation, 2021). Similarly, the NRSP employs a more comprehensive empowerment approach by offering loans in addition to microinsurance products and vocational training.

However, structural obstacles to microfinance exist in AJK as well. Program scalability is hindered by the lack of region-specific legislative frameworks, high operating expenses brought on by challenging terrain, and cultural opposition to women's economic participation (Rauf & Mahmood, 2019). Furthermore, most MFIs depend on donor support, and if outside financing stops, they will have trouble remaining viable.

Digital microfinance, which uses mobile platforms to track and disburse loans, is one recent innovation that shows potential. Mobile-based credit models can lower transaction costs and improve transparency, according to pilot programs conducted by the Pakistan Poverty Alleviation Fund (PPAF) in the districts of Poonch and Bhimber (PPAF, 2022). However, for these programs to be successful, they must be combined with activities to enhance local infrastructure and digital literacy.

Challenges in Managing Inflation and Currency Volatility

AJK is commercially and monetarily intertwined with Pakistan, notwithstanding their political differences. It is governed by the State Bank of Pakistan's monetary policy and uses the Pakistani rupee (PKR). As a result, AJK lacks autonomous levers to react to regional economic shocks and is subject to all currency fluctuations, inflationary pressures, and interest rate adjustments.

The cost of imports, remittance values, and investment inflows into AJK are directly impacted by the PKR's devaluation, particularly during political unrest or fiscal imbalance in Pakistan. Low-income households are disproportionately affected by currency depreciation because AJK imports most of its consumer products, building supplies, and machinery from other regions of Pakistan (SBP, 2023).

Weak local administration and inadequate market regulation make managing inflation in AJK even more difficult. Bureaucratic inefficiencies, a lack of qualified enforcement officers, and issues with collaboration between federal and regional authorities are reasons why price control measures frequently fail (AJK Planning Department, 2021). Consequently, stockpiling and black-market pricing during economic downturns continue to be prevalent.

Mechanisms for Economic Recovery and Disaster Preparedness

Natural disasters, including earthquakes, landslides, and flash floods, are common in AJK and can have disastrous economic effects. A grim reminder of the region's susceptibility is the 2005 Kashmir earthquake, which left 3.5 million people displaced and killed over 80,000 people (World Bank, 2006). More recently, disasters brought on by climate change, such as the floods in 2022, have stressed local economies, damaged infrastructure, and affected agriculture.

Under the auspices of the National Disaster Management Authority (NDMA), the State Disaster Management Authority (SDMA) oversees disaster preparedness in AJK. Despite the existence of institutional frameworks, insufficient money, a lack of equipment, and poor interagency cooperation make implementation difficult (NDMA, 2022). Early warning systems and thorough hazard mapping are lacking in many districts.

The availability of financial tools to enable recovery is critical to economic resilience in the aftermath of disasters. Regrettably, the insurance market in AJK is underdeveloped, and most households lack agricultural or property insurance. Government compensation programs and donor aid, both sluggish, uncertain, and frequently politically mediated, are crucial to post-disaster rehabilitation (UNOCHA, 2020).

There have been few attempts to implement community-based disaster risk finance options, including catastrophe bonds, micro insurance, and emergency cash grants. Setting up a revolving fund to provide emergency funding for climate-related disasters in AJK is a promising project by the Asian Development Bank (ADB) and NDMA. However, it is still in its infancy (ADB, 2022).

The Cultural Economy and Tourism

With its stunning alpine scenery, rich cultural traditions, and historical legacy, Azad Jammu and Kashmir (AJK) has enormous potential for economic growth driven by tourism. However, this potential is underutilized because of ongoing geopolitical unpredictability, inadequate infrastructure, and a lack of strategic planning. Four important aspects of AJK's tourism and cultural economy are examined in this section: the potential for heritage tourism in light of

security concerns, ecotourism growth and sustainable practices, cultural exports and their economic impact, and seasonal travel trends and infrastructure needs.

Possibilities for Heritage Tourism Despite Security Perceptions

Mughal forts, Buddhist artefacts, Sufi shrines, and colonial architecture are just a few of the historical and religious treasures that can be found in AJK. Locations like the Sharda Peeth temple in Neelum Valley, the Red Fort in Muzaffarabad, and the Ramkot Fort in Mirpur offer several options for heritage tourism. These locations can potentially draw pilgrims and heritage travellers from abroad, particularly from nearby India, and local tourists (Dar & Bukhari, 2019). However, AJK's geopolitical position and closeness to the Line of Control (L C) severely restrict traveller flow. Real and imagined perceptions of insecurity discourage travellers and limit foreign investment in the travel industry. Even if they occur infrequently, cross-border gunfire or civil unrest garner disproportionate media coverage and contribute to the perception of AJK as a conflict zone (Iqbal & Ali, 2022). Despite the region's historical and religious significance, this impression has resulted in a lacklustre intake of foreign tourists.

Cross-border tourism is declining due to several factors, including security concerns and bureaucratic barriers like the need for foreign visitors to obtain No Objection Certificates (NOCs) and complicated visa requirements. Due to tense diplomatic relations, historical locations like Sharda Peeth, which are spiritually significant to the Hindu population, are still mostly inaccessible to Indian pilgrims (Khan, 2020).

AJK needs to redefine itself to fully realize heritage tourism's potential and its role as a place of peace, history, and culture. Heritage site management training and digital marketing of cultural assets could increase global visibility. Additionally, under frameworks for fostering confidence, efforts for cross-border religious tourism—like Pakistan's Kartarpur Corridor—could be investigated.

Development of Ecotourism and Sustainable Methods

The snow-capped mountains, alpine lakes, and verdant valleys that make AJK's natural landscape make it an ideal destination for ecotourism. Trekkers, adventurers, and environment lovers travel from all across Pakistan to places like Ratti Gali Lake, Leepa Valley, and Toli Pir. However, AJK's existing tourist strategy is primarily seasonal, uncontrolled, and environmentally harmful. In popular places, the absence of a comprehensive tourist program has resulted in unregulated building, deforestation, and pollution. For instance, in the Neelum Valley, careless hotel development and uncontrolled vehicle access have resulted in rubbish accumulation and soil erosion close to delicate ecosystems (WWF-Pakistan, 2021). Long-term sustainability is at risk when waste management and environmentally conscious planning are neglected.

Eco-lodging, conservation-based hiking paths, and low-emission transportation are sustainable tourism techniques that are still relatively new in AJK. Even though NGOs and development organizations have funded specific experimental projects, including community-based tourism in Arang Kel, these are frequently short-lived because of a lack of institutional backing (UNDP Pakistan, 2022).

Ignorance and a lack of training among local business owners and communities are some of the main obstacles to sustainable tourism. Most informal hospitality enterprises know nothing about sustainable business methods or environmental preservation. According to the AJK Tourism

Department (2021), government tourism departments are underfunded and lack the technical expertise necessary for ecological planning and compliance.

To overcome these issues, a change to an ecotourism approach that prioritizes long-term income production, local involvement, and environmental care is necessary. Responsible growth can be established through tax breaks for eco-certification, incentives for green building, and incorporating ecological impact studies into tourism licenses. Collaborations with academic institutions and environmental NGOs may also help develop a new generation of ecotourism business owners.

The Contribution of Cultural Exports to the Economy

In addition to its natural beauty, A K is abundant in intangible cultural resources, including traditional music, handicrafts, storytelling, and food. These cultural manifestations define the region's character and can generate income through both local and global cultural marketplaces. From digital media presenting traditional folklore to handcrafted rugs and shawls, cultural exports may strengthen marginalized populations, especially women, and broaden AJK's economic basis.

The region has a long history of producing handicrafts, including woollen shawls, wood carvings, and needlework in districts like Bagh, Kotli, and Hattian. However, most artisans work informally and cannot access e-commerce platforms, large markets, or innovative designs. As a result, even while demand for domestic goods is rising worldwide, these crafts continue to make negligible economic contributions (Shah & Aziz, 2018).

Pakistan has benefited from initiatives like handicraft shows and neighbourhood bazaars, but exporting to other countries is still tricky because of political, certification, and branding concerns. In addition, AJK artisans have obstacles such as restricted financial resources, a lack of group bargaining power, and inadequate instruction in digital marketing and quality assurance (Iqbal et al., 2021).

Regarding digital storytelling, AJK has unrealized potential in social media, movies, and music. Websites like YouTube and international art festivals can be used to make money from documentaries about AJK's customs, oral histories, and religious celebrations. The popularity of Kashmiri music bands and online influencers from the area evidences an increasing demand for cultural content that combines heritage with contemporary platforms.

Support from policymakers is crucial for cultural exports. This can entail creating councils for cultural exports, incorporating cultural instruction into career programs, and providing funding for artisan cooperatives and content producers. With the correct environment, AJK may use its artistic resources to preserve its identity and make money.

Patterns of Seasonal Travel and the Need for Infrastructure

The summer months of May through August see the highest volume of visitors to AJK, who come to escape the heat of the plains and take advantage of the cool climate of hill stations like Rawalakot, Muzaffarabad, and Leepa. Winter tourism is still underdeveloped despite the possibility of skiing, snow hiking, and snow festivals in places like Sudhan Gali and Pir Chinasi (AJK Tourism Department, 2021).

Tourism seasonality causes several economic inefficiencies, including uneven service quality, unpredictable revenue for hospitality employees, and underuse of infrastructure during off-peak

months. Local communities experience unstable revenue streams and transient employment because many hotels and transport services only function during peak seasons (Rehman & Malik, 2020).

In addition, there is insufficient infrastructure to facilitate year-round travel. Due to landslides and snowfall, road access to many tourist destinations is unpredictable in the winter. In isolated valleys, there are few basic amenities like rest spots, medical assistance, and gas stations, and communication networks are poor. This reduces visitor comfort and increases the danger of accidents.

Although the private sector has expressed interest in creating adventure parks and resort-style lodging, development has been sluggish because of property conflicts, bureaucratic hold-ups, and poor public-private collaboration. AJK's power supply is also erratic, particularly in tourist-heavy areas, discouraging investment in upscale visitor amenities.

Tourism master plans must be in line with infrastructure development. Climate-resilient highways, round-the-clock power in popular tourist areas, visitor centre construction, and emergency response service capacity building are all examples of this. Master plans for large valleys and the introduction of tourism zoning rules can help limit uncontrolled development and protect cultural and environmental resources.

Thematic festivals (such as winter carnivals), university partnerships for educational tourism, and discounted travel packages during slow months are other ways that AJK might encourage off-peak visitation and stabilize cyclical trends. Creating sports tourism, wellness tourism (yoga retreats, herbal medicine centres), and heritage circuits could increase the number of visitors and prolong the season.

Conclusion

A multifaceted strategy focused on institutional reform, increased regional stability, and improved governance transparency is required to address these ingrained issues. AJK can realize its significant economic potential, draw in sustainable investment, and strengthen its resilience to future shocks by creating a stable and secure environment. Transforming AJK from a conflict-affected region into one that can achieve strong and fair economic prosperity for its people would require a focus on diplomatic efforts to settle remaining conflicts, in addition to clear and consistent policy frameworks.

The economic potential of Azad Jammu and Kashmir (AJK) is severely hindered by the complex interplay of geopolitical factors, as evident in the region's ongoing political unrest, border disputes, and administrative ambiguities. All of these factors work together to discourage foreign direct investment, obstruct important trade routes, and shift funds from development to security. Due to their intrinsic vulnerability to external shocks, sectors like tourism, agriculture, and energy are constantly at risk, which affects livelihoods and deters long-term progress. Implementing policies is made more difficult by the region's semi-autonomous status, which exacerbates the already precarious economic situation and feeds the cycle of underdevelopment.

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