



Exploring Sectors of Trade Cooperation in the BBIN Sub-Region

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Introduction

The South Asian Association for Regional Cooperation was formed in 1985 as a product of integrating the South Asian countries. (Sahasrabuddhe). South Asia had remained the least integrated regions and it is a widely known fact that intra regional trade and exchange has not flourished yet. The intra SAARC trade is woefully low as compared to trade in other regional blocks. The intra SAARC trade stands at 6 percent, with India being the dominant exporter to the other regions of South Asia.¹ The East Asian countries have recorded an increase in their Gross Domestic Products (GDPs) since the early 1980s. This has been possible because of regional integration through trade liberalization. This factor was the key driver in accelerating the economic growth.

In November 2014, the 18th SAARC Summit was held in Kathmandu, Nepal, where the Indian Prime Minister, Mr. Narendra Modi stated that regional integration in South Asia would go ahead “through SAARC or outside it, among all of us or some of us.”

June 15, 2015, marked an important event in the history of regional co-operations. The transport ministers of four South Asian neighbors – Bangladesh, Bhutan, India and Nepal now better known as the BBIN – signed Motor Vehicles Agreement (MVA) in Thimpu. The agreement is expected to pave the way for a seamless movement of goods and people across their borders, encouraging regional integration and economic development.²

This led to the formation of sub-region under South Asia. However the concept of sub-regionalism is not new. The notion of sub-regionalism within the South Asian Association for Regional Cooperation (SAARC) was first put forward in May 1996 during the meeting of the SAARC Council of Ministers. The idea of forming a growth triangle consisting of Northeast India, Bangladesh, Bhutan and Nepal was brought up. The idea got a further boost in December 2006 when Nepal moved ahead with the idea of sub-regionalism and circulated an approach paper on the feasibility of sub-regional cooperation in the Council of Ministers.³

This sub-region in the eastern fringe of South Asia depicted an encouraging social, economic and cultural exchange. In this region, 52 percent (7,917 km) of the total land borders of 15,106 of India, i.e., 4,096 km with Bangladesh; 633 km with Bhutan; 1,346 km with China; 1,643 km with Myanmar; and 199 km with Nepal. So this shared border can be re-recognized as “borderlands” where there can be a healthy interchange of natural resources, cultures, societies, trade-commerce, tourism, migration, water towers, technology, roads and communications. This makes the borders potential enough for regional trade, interaction and economic integration.⁴

This paper thus delves into three main sectors via which trade can take place in the BBIN sector-

trade via the transportation sector, cross-border power trade and trade via the agricultural sector. Motor Vehicles Agreement, as a part of trade through transportation is already in process. Currently it is in the second phase of the execution process. Cross border power trade and agricultural trade are very potential avenues for trade in the BBIN region. This paper identifies the scope and strategies for trade via these two sectors in order to strengthen the sub-region.

Trade through the Transportation Sector⁵

Motor Vehicles Agreement: An Imperative for Regional Connectivity

ISSUES & FACTS:

The Motor Vehicles Agreement between Bangladesh, Bhutan, India and Nepal (BBIN) was signed and sealed. The agreement is expected to pave the way for a seamless movement of goods and people across their borders, encouraging regional integration and economic development.⁶

According to Indian Transport Minister, Nitin Gadkari, “*This indeed is a momentous achievement for all the four neighbors. This historic agreement will further promote our cooperation in trade and commerce.*” He added, “*The Motor Vehicles Agreement is the ‘overarching’ framework to fulfill our commitment to enhance regional connectivity. The agreement will help in creating transport corridors linking the four countries into economic corridors as well as enable transit of passengers and goods along designated key routes in the four SAARC countries, thereby reducing the time-consuming exercise of disembarking of passengers.*”

The main objective of the project is to provide un-hindered people-to-people communication and to develop regional economic interaction by facilitating cross border movement of people and goods. The motive behind the establishment of BBIN is to strengthen regional integration for peace, stability and prosperity in South Asia by intensifying cooperation through various channels like trade, investment, finance, energy, security, infrastructure, connectivity and culture.⁷

Since India’s smaller neighbors face many barriers to trade with India with respect to tariff and non-tariff structures, BBIN-MVA initiative aims at removing this perception and to ensure reciprocity in trade and commerce in India.

The BBIN-MVA would thus enable seamless sub-regional connectivity, deeper integration on economic issues and people-to-people contact between the four countries. It would permit unhindered movement of passenger and cargo vehicles among the four countries.

Earlier the cargo vehicles were needed to be changed at the borders but now with the initiative this difficulty is done away with. According to the agreement, member countries would allow vehicles to get registered in their countries to enter their territory subject to certain terms and conditions. Customs and tariffs will be applicable and decided by the respective countries and these would be finalized at bilateral and trilateral forums.

PRESENT STATUS:

The BBIN MVA is a six month project and it has a three phased process. The first phase dealt with the preparation of bilateral (and perhaps trilateral or quadrilateral) agreements and protocols for implementation of the MVA which concluded on July 2015. The second phase will entail negotiation and approval of additional agreements and protocols, by September 2015. This will be followed by installation of the IT systems, infrastructure, tracking, regulatory systems and other tools for implementing the approved agreements, by December 2015, and then by gradual roll out from October 2015.

CHALLENGES:

However, the BBIN-MVA agreement is not the first agreement or initiative that India has signed. India already has two separate bilateral agreements with Nepal and Bangladesh on the same line but they have not been implemented successfully. For instance, the current India-Nepal transit treaty has failed due to the lack of movement of vehicles on their own from Kolkata and Haldia ports into Nepal. Moreover the implementation of smooth trans-shipment procedures has been delayed due to the increase in the movement of unauthorized trade and Fake Indian Currency Notes (FCINs) from Nepal and Bangladesh. Hence, the question remains, will BBIN-MVA supersede these bilateral agreements or reinforce them?

Most of the border crossing points does not have integrated and reliable check posts posing a serious threat to India's border and internal security. This is because due to lack of check posts, there might be influx of people in eastern India.⁸

The economic and social conditions of a country also play an important role in the proper execution of plans or agreements. Apart from India, the other three countries lack adequate infrastructure for implementation of MVA. Bangladesh, Bhutan and Nepal are short of civil engineering skills, poor condition of roads and other attributes required for a successful MVA. Moreover, Nepal is still recovering and is in the process of reconstruction from the deadly earthquakes that had hit Nepal hard in 2015.⁹

Moreover, India does not need to obtain visa or visa-on-arrival for Bhutan and Nepal but with regards to Bangladesh India does. Also, the arrangement for visa on arrival between India and Bangladesh is absent. So this issue needs to be sorted for the claim of seamless movement between people and goods to be true.¹⁰

Another operational issue is that a permit is required every time a truck crosses the borders. Therefore, acquiring journey-wise permit every time for the vehicle to operate across the borders become cumbersome and also increases the transaction costs.

Moreover, the need for having one single designated driver for the entire journey adds to operational inflexibility. The driver needs to be changed at the borders.¹¹

WAY FORWARD:

For an efficient functioning of MVA, Transport Facilitation Committee at a country level and Joint Committee at the regional could be established to monitor the implementation of cross border transport agreement.¹² Institutional frameworks could be built on agreements between governments of BBIN countries. These agreements establish policies to lessen transit and border delays and integrate regional road and rail networks. Moreover, each transport corridor could be composed of several smaller transport routes that could connect inland destinations to coastal ports.

Public-private entities could be encouraged to manage the infrastructure needs and daily operation of the BBIN corridors. These entities could also partner with service providers to supply a range of transport-related services, such as warehousing and logistics.¹³

Trade through the Energy Sector:

Cross Border Energy Trade: an approach for deeper sub-regional cooperation.

ISSUES & FACTS:

One of the important reasons as to why certain nations have developed and others are still developing is the availability of energy. Energy or power is the key driver of economic growth; without energy economic activities will come to a standstill.

Bangladesh, Bhutan, India and Nepal lack proper access to clean, reliable and affordable energy.¹⁴

The hydro-electricity capacity of Nepal and Bhutan has remained un-tapped and un-exploited. Even though Nepal has a large number of hydro electric power plants and have load centers in India, required and necessary efforts have not been made to develop such resources. (Priyantha Wijayatunga, 2015). Besides, Bangladesh and India depends on fossil fuels like coal, petroleum for energy production and as a result there has been an increase in the imports of fossil fuels resulting in an increase in the cost of electricity.¹⁵

Apart from the technical issues, these countries also need to provide electricity to the rural areas as well which is home to about 300 million people. Thus, there is a growing need to develop and increase the scope of cross border power trade in this sub-region of South Asia.¹⁶

Advantages of cross order energy trade:

Cross border energy trade in this sub-region is encouraged because of the benefits that will accrue from such a co-operation in this region. It is a well known fact that, power interconnections be it a regional one or an international one, will reduce the cost of producing electricity, if it were to be done individually and separately. The main advantage of power trade is transfer of cheaper surplus generation from one system to an expensive supplant generation in the other. Since, the power grids of the different countries will be connected and depend on each other's supply, the overall capacity required by the systems will be less. Besides, depending on one another for energy, the emissions will also be reduced thus protecting the environment.¹⁷

Bhutan and Nepal generates electricity and power for their region through renewable resources mainly, hydro power. On the other hand India and Bangladesh are dependent on fossil fuels for energy production. Now the trade between Bhutan and Nepal with India and Bangladesh will lead to production of energy via the renewable sources and hence will lead to a reduction on the importation of fossil fuels.¹⁸ This will save the nations from the volatility of the energy prices in the international market.

As per the laws of economics, low importation costs will automatically lead to cheaper energy production in these regions thus leading to a cost effective power system. Due to a lower cost energy market, there will be an improvement in the economic performance of the industries and firms and they will no longer face supply shortages in terms of electricity.

Also, the countries involved will see a rise in their GDP numbers. For instance, in Bangladesh, power sector share of GDP is roughly around 1.3% and the annual demand growth rate is more than 7%. So if an additional demand of 1000 Mw is met, then the power sector's contribution to the GDP will rise by 2%. Nepal will also face a similar situation. According to the Water Resources Strategy Formulation Report of Nepal, the development of hydro power sources will lead to an annual growth rate of 8% and this rate will be enough for tackling poverty and unemployment issues.¹⁹

Power trading will encourage trade in other goods and commodities which will assist in strengthening the region. As power trade will lead to trade in other goods and services, this will in turn might help in altering and increasing the commodity basket of an exporting country resulting in an improvement in the balance of trade.²⁰

Besides, economic benefits power trade also protects the environment by reducing carbon dioxide (CO₂) emissions. For India in particular, older, less efficient coal plants have an average emission intensity of 1,350 tonne of CO₂ per GWh. The amount of hydropower that will be transferred to India from Bhutan will reduce CO₂ emissions by 10 million tonnes per year by 2016-17.²¹

Existing energy trade agreements:

However there are co-operations in place between these countries in order to electrify the region. India-Bhutan, India-Nepal, India-Bangladesh have a number of initiatives to develop cross border energy exchange. These initiatives have been successful as the nations have benefitted from such co-operations. Access to electricity has been improved for Bhutan and now it is a major source of export revenue. This has been possible due to various agreements between Bhutan and India such as the Umbrella Agreement in which India provides Project investigation, design and engineering services, constructional supervision and highly concessional finance for the upcoming hydro projects. In return, India will import all the surplus power after meeting the needs of Bhutan.

Apart from this, the Government of India and the Royal Government of Bhutan has further selected ten projects for the development of 10,000 MW by 2020.

Power from Nikachhu Hydropower Project shall be supplied to Assam Power Distribution Company Limited (APDCL) to meet its power demand in the state on long term basis.²²

Besides agreements between Bhutan and India, several power trade co-operations are emerging between Bhutan and Bangladesh. Bangladesh will be investing around US\$1.0 billion in hydropower in the landlocked country to re-import the electricity, officials said. It's part of a regional power trade.²³ Bangladesh is also seeking to import power from Bhutan through the Indian corridor. Mr. Nasrul Hamid, Bangladesh State Minister for Power and Energy, discussed the possibility of enhancing the scope of Bangladesh-India cross-border energy transmission to include Bhutan in a meeting with Indian High Commissioner in Dhaka Harsh Vardhan Shringla on energy cooperation on 13 March 2016.²⁴

Nepal although has a high hydro-electric potential still faces power shortages mainly and thus imports from India under a commercial trade agreement to address the power shortages there such agreements include the Koshi Treaty, the Mahakali Treaty and Muraffarpur-Dhalkebar Transmission Line.²⁵

Koshi Treaty was initiated as a response to the floods of 2008, the Government of India proposed a 289 m. high hydroelectric dam, 3300 MW power, that would engulf a large area. The dam is a 269 meter high (883 feet) concrete dam with a capacity of 3,300 MW at a 50 percent load factor. This dam is beneficial as it irrigates 300,000 hectares of farm land both in Nepal and the Indian State of Bihar. This dam is still in operation. However, this treaty has not been a success because the huge flood in 2008 had covered many hectares and produced many damages to Nepal population and Bihar.²⁶

According to the Mahakali Treaty, Nepal would provide India 2.9 hectares of land for installing the head regulator of the reservoir at the Tanakpur barrage having a capacity of 1,000 cusecs. India was also required to construct a canal providing 150 cusecs of water to Nepal. India was further required to provide Nepal with 10 megawatts of electricity. However, at present there is no exchange of views at both the sides.

The Muzaffarpur-Dhalkebar Transmission Lines entail A 400 kv cross border power line was established after Nepal Electricity Authority (NEA) and India's National Thermal Power Corporation (NTPC) had signed a temporary power supply agreement. According to this agreement Nepal can import 80 Mw of energy for four and a half months with an extension period.²⁷

Nepal will have surplus energy in a few years' time. The Nepal-India power trading in commercial level will also benefit private sector power producers.²⁸

Recently, Bangladesh and Nepal are in talks of drafting an agreement to set up state owned power traders. This will maximize electricity commerce as energy security is the key to development in the region.²⁹

There are also far reaching cross border power trade projects between Bangladesh and India which are in operation like India exports 250 MW out of 500 MW to Bangladesh from 2013. A grid interconnection has been set up between Bheramara (Bangladesh) and Behrampur in West Bengal (India). Moreover, a 1,320-MW coal-based unit at Rampal in Bangladesh by National

Thermal Power corporation (NTPC) of India costing \$1.5 billion is likely to be commissioned by 2017 and 100 MW export to Bangladesh from Palatana Project in Tripura.³⁰

Status of the on-going Power Trade Agreements

Sr. No	Countries	Interconnection Description	Capacity (Mw)	Status
1.	Bangladesh-India	400Kv HVDC back-to-back asynchronous link	500MW	Completed
2.	Bhutan-India	Grid reinforcement to evacuate power from Punatsangchhu I and II	Reinforcement of 2,100MW	
3.	Nepal-India	Dhalkebar-Muzaffarpur 400Kv line	1,000MW	Under implementation

Source: (Singh)

Reasons for Power Trade in the BBIN Region

Country	Reason
Bangladesh	Severe power shortages; heavy reliance on domestic natural gas; plans for large coal power development.
Bhutan	Large sources of hydropower
India	High demand growth, coal power dominated, coal shortages, power deficits, significant advances in clean energy development
Nepal	High incidence of power cuts.

Source: (Priyantha Wijayatunga, 2015)

Strategy for Electricity Trade in BBIN:

The electricity sector integration in the BBIN region has still not evolved. Even though a number of power trade agreements and projects have been signed and drafted and are in operation, the full potential still remains un-realized. For deeper power sector integration, the authorities can follow the examples of other international power sector integrations like the European Union and the US, Greater Mekong Sub-Region Co-operation on Energy and Power and so on. The most important element to learn from the various regional co-operations on energy trade in order to develop this sector is identification and harmonization of key technical, commercial, economic, and regulatory/ legal aspect.³¹

In order to develop the energy sector in the BBIN region, one can also draw inspiration from the trade between India and Bangladesh in this aspect. The coordination, licensing procedures, payment schedules and other important aspects of the trade are all sorted out and it is transparent and hence it is smooth. Thus the other countries of this region can follow the footsteps and hence can develop the cross country energy trade.

One can also focus on the partnerships of the private companies of the countries. For example, the trade agreement between India and Nepal (Muzaffarpur-Dhalkebar Transmission Line) is a Public Private Partnership (PPP) model and not a Government to Government (G to G) model. Hence, the other nations in the region can follow a similar pattern of energy trade involving the private companies.

Dr. Salim Mahmud, a member of Bangladesh Electricity Regulatory Commission at a conference on Cross Border Electricity Trade 2013 had mentioned three models that can be followed; the French Model, the British Model and the German Model. *The French Model* promotes the idea of public sector dominance in the industry. *The British Model* advocates non-discriminate competition in every segment of the energy sector. *The German Model* supports private monopoly in the sector.³²

However, it is not feasible for BBIN to follow all the three models. The best model either to follow or to learn from is The British Model. This is because if BBIN follows The French Model, then it might possibly lead to clash and conflict of interests between the governments. The German model will also not be suitable because it advocates private monopoly. As it is a wide known fact that the objective of the private players is to maximize profits. As a result, the social welfare aspect of the regional integration will be overlooked. Also, the problem with monopoly is that this form of market structure follows discriminate pricing. Thus for BBIN as a starter, The British Model will be conducive enough to facilitate cross border power trade as it encourages non discriminate policies.

He had also cited the example of the European Union and the United States where they are trying to develop a common electricity market. The US and Canada on the other hand already have a common electricity market in place. The Southeast European Power Market and the Greater Mekong Sub Region (GMS) Co-operation on Energy and Power are examples of successful regional energy sector integration.³³

BBIN can follow their policies and framework so as to develop the energy sector integration in the region. In the BBIN region Bhutan, Nepal and India can form a common electricity market.

This is because both Bhutan and Nepal are hydro-power driven nations and in India they can develop and install transmission grids and power lines.

From GMS, BBIN can replicate or follow two approaches that GMS has undertaken; first providing the policy and institutional framework for power trading and second, developing the grid interconnection infrastructure to connect the various GMS power systems. Besides developing the institutional framework, GMS had successfully gathered funds from Asian Development Bank to create and strengthen a medium voltage level interconnection for serving cross-border power trade in areas near the border and high voltage transmission lines to serve Independent Power Producers (IPPs) for power export.³⁴

BBIN can also apply for funds from Asian Development Bank or the BRICS Bank to facilitate the process of cross border power trade. Since, Bhutan and Nepal lacks proper infrastructure to facilitate cross border power trade, hence the governments of these two nations as a first step can develop and strengthen their power grid lines and other required infrastructural facilities.

According to Dr. Jyoti Parikh another international co-operation which can be looked up to by BBIN countries is South African Power Pool (SAPP). It is a treaty between 12 countries of the mainland African region. According to this treaty, there will be optimal use of the available energy resources and will support the other nations during emergencies. In SAPP countries multiple interconnections were established between hydro-dominant and coal-dominant countries.³⁵

So, following SAPP's footsteps, interconnections can be set up between Bhutan and Nepal as they are hydro-dominant and Bangladesh and India as they are coal dominant. This will ensure that the systems do not become over dependent on either of the resources and mainly on hydropower because hydropower is prone to much more natural risks than coal.

Besides, the BBIN sub region can strengthen the energy trade by putting together the regional energy markets or integrating them. This will generate huge benefits to the region; economic and technical benefits. Economic benefits will include lower supply cost, better exploitation of energy resources and so on. On the environmental front, there will be reduced emissions and hence protecting the quality of the environment. On the technical aspect, there will be of course, an improvement in the power system reliability and less dependency on any one of the sources.³⁶

Moreover, the sub region as a whole can develop and form a nonconventional renewable energy club which would generate power from various sources like water or hydro-power, wind, solar energy and also biomass. Basically the idea is to combine the non conventional renewable energy sources of the various countries under the BBIN sub-region.³⁷

BBIN can also follow the "energy banking model" that has been implemented in Himachal Pradesh. According to this model, the company supplies electricity (hydropower) during monsoons and withdraws power during winters. A similar strategy can be applied across the countries as well where during peak power (value of power is high) can be exported at high price and off peak (value of power is low) can be imported at a low cost.³⁸

Challenges:

Although, there are a lot of economic and social benefits of power trade, there are certain restrictions and challenges that will hinder the growth of power trade in the sub-region and hence the realization of full potential of power trade will not be possible.

Political Climate is one of the main reasons for such low integration in the South Asian region and thus in BBIN. South Asia has history of distrust amongst its nations hampering the progress and improvement of regional co-operation in South Asia. However in recent times, efforts are being made by all the countries to improve the economic and political relations, political rhetoric for electricity cooperation has not consistently translated into the political will and action for cooperation in South Asia. Moreover, internal politics also pose serious threat to the regional co-operation in South Asia.

Most of the power trade agreements are G to G i.e. Government to Government and this involves a lengthy negotiations and stringent rules thus diminishing economic gains.³⁹

Regional co-operation in the energy sector is also viewed as a threat to the energy security. One such example being- the Bangladeshi Government had failed to supply natural gas to an investment project of USD 3 million made by India. Thus India had abandoned the business venture altogether.⁴⁰

Tariff and Non-Tariff barriers threaten the scope of power trade and imposition of tariff and non tariff barriers are the main reason for such low level of regional integration in South Asia. Trade via energy faces a lot of duties and taxes such as export tax, transit tax and import duty. The South Asian Free Trade Agreement, when it was signed, trade of energy or power was not mentioned in the agreement. However in the 18th SAARC Summit in Kathmandu, SAARC Framework Agreement for Energy Cooperation was signed with the intention of developing the regional power sector but a lot of work still needs to be done for proper execution of the agreement.

India's import licensing restrictions have limited India's participation in Nodal Agencies. This in turn has caused India's limited entry in cross-border trade hampering the development of power exchange.⁴¹

There are infrastructural and technical constraints as well involving low capacities of transmission interconnections and maintaining cross border power flow within the prescribed limits of each country for the stability of the system⁴² such as lack of adequate transmission and regional infrastructure where tangible and physical transmission lines are a pre-requisite for energy trade in BBIN. Presently, transmission interconnections exist between India-Bhutan, India- Bangladesh and India-Nepal but they are very few in number.⁴³

In order to carry out smooth and unhindered power trade legal, policy and regulatory frameworks of all the nations and of the sub region should be harmonized. As mentioned earlier, the power sector integration in the BBIN sub region is in the evolutionary state. As a result the policy, legal and regulatory frameworks have still not formed properly. The policies that are in place aims at the utilization of domestic resources hence limiting the scope of regional utilization of the resources thus hindering the development of CBET in the BBIN region. This in turn discourages

the investors, banks and other lending organizations and individuals from investing in the power sector for development.⁴⁴

Way Forward:

The BBIN region is an emerging and a developing sub region in South Asia and the growing need for energy and power necessitates from this development in the sub region. At the same time, there should be an adequate supply of energy to sustain the growth of BBIN.⁴⁵ However, the energy sector integration is still in its developing stage and a structured approach is required for the enhancement of the sector. On the other hand there are hardly any market based approaches for developing the sector but successful power trade projects between Nepal-India, Bhutan-India and Bangladesh-India are in place.⁴⁶

In order to realize the full potential of the cross border power trade, the regulatory, commercial and legal framework needs to be harmonized and coordinated among the BBIN regions. In addition to this, the regional political distrust in the region also needs to be addressed. The BBIN region can also learn from the experiences of other international co-operations on energy trade.

An economic analysis of the demand and supply of energy in the region will be conducive for deeper power sector integration. However, the benefits to accrue will vary from country to country. For example, the hydro resource development in Nepal and Bhutan will translate into benefits only if there is an adequate demand in the other economies namely Bangladesh and India. Bangladesh can benefit if it imports hydro-electric power from Nepal and Bhutan and add to their power generation portfolio.⁴⁷

It is also important to bring together different stakeholders of the region to identify various avenues of energy trade thus further enhancing the power sector integration.⁴⁸

Trade via Agriculture: Key measure to alleviate rural poverty.

ISSUES & FACTS:

The main rationale behind the further division of South Asia into BBIN region is to develop the region. This is because South Asia is one of the least integrated regions in the world despite possessing various attributes that can lead to the development of the region. Therefore in the SAARC Summit, that was held in Nepal in the year 2015, Indian Prime Minister, Mr. Narendra Modi, had addressed this issue and encouraged for the integration of BBIN.

One of the problems that South Asia or in particular BBIN region is trying to solve since decades is poverty. Poverty in the sub region is mainly concentrated in the rural and the lagged regions. Despite strong growth rates, 40 percent of the total population in the BBIN region resides below the poverty line. The best measure to reduce poverty is by achieving greater regional co-operation through facilitation of intra regional trade and exchange. Since the South Asian economies and in particular the BBIN regions are agrarian in nature, therefore it is crucial to unlock the potential of intra regional agricultural trade to alleviate rural poverty and to develop the region. It is a widely known fact that the intra regional trade and exchange has not flourished yet. The intra SAARC trade is woefully low as compared to trade in other regional

blocks. The intra SAARC trade stands at 6 percent, with India being the dominant exporter to the other regions of South Asia.⁴⁹

Majority of the poor population of the BBIN sub region resides in the rural areas of the region. Their main source of income and employment is agriculture. Since the agricultural productivity is low, the per worker income in the agricultural sector is also low hence the prevalence of poverty in the rural regions. Agricultural farming in the sub region is dominated by small land holdings i.e. the quantity of land available for agriculture. The farm size in Bangladesh is below 0.5 hectare, in Nepal it is below 1.0 hectare and in India it is 1.41 hectare.⁵⁰

The very low land to labor ratio reflects the small size of the land holdings. In Bangladesh and Nepal five people draw their income from 1 hectare of arable land.

The primary disadvantage faced by the rural population depending on agriculture, is heavy dependence on rain fed agriculture. As a result during the time of droughts, the rural areas of the region suffer a lot. Area under irrigation as per cent of arable land is around 33% in India, 47% in Nepal and 56% in Bangladesh.⁵¹ Livelihood security, eradication of poverty, reduction in hunger, and sustainable and inclusive growth of economy of each country thus critically hinge on the future of agriculture.

Region wide the main staple is cereal and pulses. Per hectare production of cereals in the sub region is lower than the world average. Despite the high potential, agricultural productivity is getting stuck at low level and increase in productivity requires increased use of inputs. This is lowering efficiency of production and diminishing profit margins and hence high incidence of rural poverty.

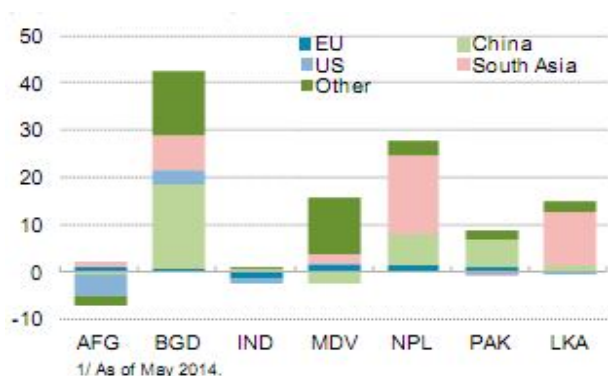
In this regard, the BBIN sub region is agrarian in nature and agriculture plays a dominant role in developing the region. Hence it is of utmost importance to promote intra agricultural trade in order to alleviate rural poverty in this region and hence develop the region.

Trends in Agricultural Trade:

The BBIN nations are already engaged in trade via agriculture with each other. The major trading markets of Bangladesh are India and Pakistan. The share of exports to the SAARC region has increased from 15% in 2002 to 47% in 2007. Its export commodities constitute of raw cotton wastes, cotton carded and combed. These items are mainly exported to India. It also exports live trees, plants to Pakistan and edible oil and nuts to India. For Bhutan the main markets are India and Bangladesh. Its exports to the region constitutes of 9.4% of the total exports including exports to the other countries outside South Asia. Its major exports are edible fruits, vegetables, fruits and nuts. India is the main market for Nepal's agricultural produce. However, Nepal is a land locked country, it has a very low share in agricultural exports. But on the other hand, Nepal has a high share of imports from Maldives and Sri Lanka. The main imports include palm oil, cotton, wheat, maize soya bean oil.⁵²

India bags the largest share of intra regional trade the South Asian region as well as in the BBIN sub-region. India exports the maximum number of agricultural products in the region. The exports from India mainly include vegetables, fruits, spices and beverages. The main partners are Bangladesh and Nepal. The overall agricultural exports to Bangladesh has increased from 5.18% in 1995 to 13.26% in 2010 and for Nepal the rate has also increased from 2.36% to 3.62% in the same time period.⁵³

Intra SAARC Trade



Source: South Asian Regional Update, November 2014, International Monetary Fund.

Linkage between Agricultural Trade and Poverty Alleviation:

The linkage between trade in agriculture and poverty alleviation is complex. But in most of the developing countries, trade in agriculture was successful in reducing poverty. Since agriculture is one of the main sources of income and employment in the developing economies, in this case the BBIN economies, therefore it will be beneficial for all the BBIN economies to indulge in intra agriculture trade.

However, in 2001 in Doha Round of World Trade Organization's Development Agenda, agricultural trade was liberalized. Until the Doha round, agriculture markets were not included in most of the negotiations. Thus agriculture markets had a high level of intervention and tariff barriers. With the liberalization, agriculture markets opened up in the international front and proved to be beneficial to the rural poor in the developing countries.

Due to the liberalization of trade in agriculture, the prices of the agricultural commodities have increased leading to a rise in the agricultural production and income in the developing countries that export.

On the other hand, the same scenario may harm the poor population of the food importing countries as they have to borne a higher price for the food products. Agricultural price volatility

is harmful for the producers in the developing countries. But with trade liberalization, the volatility is reduced to some extent. This mainly occurs due to the larger distribution of agricultural products within the region.⁵⁴

In the past, trade in agriculture has led to an increase in the farm incomes of the farmers. In 1980s cereal production was low and poverty was considerably high in South Asia. Fifteen years later output has increased by more than 50% and poverty declined by 30%. Thus, the progress made was owed to trade in agriculture and liberalization and opening up of the agricultural market.

Besides, a rise in the farm incomes, trade in agriculture has also brought about a fall in the food prices. During the period of Green Revolution, when the advanced technologies were adopted the production of staple foods had increased. The output had outstripped the growth of the population. Given, this significant increase in per capita supply of basic foods, the real world market prices of the majority traded grains showed a continuous decline since early 1950s. At an individual country level, increased production of food grains has often had a significant effect of reducing prices. This was really beneficial to the poor both in the urban and rural areas where many people buy and grow their own food. A study by Smith and Haddad, 2002, showed that due to increase in the productivity of land and labor, the agricultural output has also increased, leading to a fall in the prices of food. Between 1980 and 2000, the real wholesale price of rice has fallen from 20 to 11 Taka per kg, hence benefitting the poor consumers.⁵⁵

Another way in which trade in the agricultural sector aided in alleviating poverty was by expanding the sector. In this case the poor would find jobs related to producing, supplying, storing, processing and reselling inputs, services and products. An increase in the income of the producers leads to an increase in job opportunities and increment in the wages of the laborers. This results in an increase in demand for goods and services and hence increases in income of the rural poor.⁵⁶ Strong agricultural growth along with increased productivity has successfully reduced poverty in these regions and has also helped in the development of these regions.

Moreover, cross border trade reduces the import prices of the goods in the bordering areas otherwise prices and price differentials would be higher. This benefits the exporters from higher value added. For instance the producers and sellers in the Osh region of Kyrgyzstan, prefers to sell their products in Uzbekistan than in Kyrgyzstan because the selling price is high in Uzbekistan. Similarly, the producers of tomatoes and cucumbers in Uzbek sell their produce to Kyrgyzstan for the same reasons.⁵⁷ Also, agricultural trade in the BBIN region will ensure food and nutrition security of the nation.

Scope of Agricultural Trade in the BBIN Region: Lessons from Trade in International Sub-Regions.

In the African Region, there has been a rise in the Producers' Organization which brings together the farmers of this region and forms a network. These networks act as key partners to the public authorities at the national, sub-regional and continental levels. This organization is involved in various agriculture related activities like supply of inputs, the grouping of supply, storage and marketing. A number of cash crop sectors such as cotton and coffee or a powerful trade sector (Zimbabwe, South Africa) have also formed the basis of agricultural organizations that influence economic strategies and political life.

Similarly, even the farmers and other individuals involved in the agricultural sector of the BBIN sub region can form a network of Producers' Organization.⁵⁸ This organization can then promote a Joint Marketing Strategy at the sub regional level. This can be done through promotion of joint ventures between regional commodity exporters for quality packaging and marketing and value addition.

The commodities may include tea, coffee, jute, cardamoms, basmati rice, etc. which are currently traded in bulk and are subject to low unit value realization. This would also promote branding and marketing of products. This strategy will fetch the producers' high price for the commodities. Because under normal conditions, small farmers are unable to bargain efficiently for better price in the wholesale market and incurs a loss. Regional cooperation in this area for marketing may help in overcoming some of these hurdles.⁵⁹

Another experience worth mentioning is the EPA-DP program of the West African States. This program aims at strengthening the West African States through the channels of trade by diversifying and increase of production capacities development of intra-regional trade and facilitation of access to the global market and improvement and strengthening of trade-related national and regional infrastructures.⁶⁰

On similar lines, even the members and the concerned authorities of the BBIN sub region can develop and formulate such a regulatory framework for agricultural trade. Since, India shares the borders with the other three nations- Bhutan, Bangladesh and Nepal. India can form a common market ground and the traders of agricultural commodities, from the three regions can enter the common market and engage in trading activities. However, certain restrictions regarding trading commodities, visas and other formalities will be applied. This scheme can be similar to that of the Chinese-Kazakh Korgas BCP-a special scheme where the local residents of Zharkent, a town in Kazakhstan can enter China visa free for a one day tenure and does not require to pay tariffs for goods weighing up to 50 kilograms. They then can sell their produce in China. The local residents of China sell their produces (apples, tomatoes, bananas, peas) in Zharkent.⁶¹ Also, the Afghan-Tajik Cross Border Project- where in 2003 the Government of Tajikistan undertook a program to facilitate cross border trade with Afghanistan. This program aimed at integrating the Border Crossing Points along with the Bazaars in the Tajik territory as a result a lot of Bazaars has come up in the Border Crossing Points. Also in this initiative no visas are required for the Afghan traders and citizens to enter the bazaars.⁶²

Gender Dimension in Cross Border Trade:

In the African region, women's trading activities have contributed massively in the reduction of poverty, economic growth and government revenues. The contribution of women informal traders to national GDP amounts to 64% of value added in trade in Benin; 46% in Mali and 41% in Chad. The revenue generated from women's participation in the intra African trade, have

mitigated the harmful effects of financial crisis and food crisis in Africa to some extent. A 'Rapid Impact Assessment of the Global Economic Crisis on Uganda' conducted by ILO in 2009 has shown a dramatic increase in informal exports from Uganda to neighboring countries (DRC, Kenya and Sudan) while official exports declined from US\$ 854 million to US\$ 714 million between the first half of 2008 and the first half of 2009, a reduction of 16%. The report notes that informal exports of industrial products rose from US\$ 475 million to US\$ 963 million between the first half of 2008 and the first half of 2009, and that agricultural exports including beans, maize, sugar, and other grains also expanded across the board.

Apart from the individual initiatives that the women have taken, the governments of the African countries have also introduced many programs supporting women's participation in intra African agricultural trade.

One such program is the Peace Basket Initiative in Rwanda. This initiative trains women with skills for high quality production and links women basket producers at local levels to global markets. The baskets are now being sold in Macys, one of the biggest department stores in New York.

Another initiative is in Cameroon, where women informal cross border trade has been prioritized by providing them with information and services in support of their activities.⁶³

Apart from Africa, even in the Central Asian region, women are actively involved in cross border trade. They are actively involved in the Bazaars as well as moving goods through border crossing points.

The individual governments can also undertake such similar programs encouraging the women in the sector by providing subsidies, grants and other benefits. Since, agriculture is the main source of livelihood in the rural areas, thus the women population in the rural household could be encouraged. Attracting women in the agricultural sector and engaging them in the trade activities would result in additional revenue for the governments and it would also be a great measure for alleviating rural poverty.

Challenges:

Trade via the agricultural channel is also subject to restrictions and hurdles. Tariff and Non Tariff Barriers is one of the main hurdles restricting the regional cooperation. The products that are listed for tariff preferences are determined by the Rules of Origin (ROO) in preferential and free trade agreements. Hence tighter the ROO, difficult it is to carry out trade because stricter ROO reflects protectionist intention. High tariff barriers accompanied by strict ROO, raises the risk of trade diversion. According to a former Indian senior Foreign Service bureaucrat, "very low range of tariff cuts, long periods of tariff reductions and higher number of goods on the 'negative lists are the major constraints in realizing a genuine free trade regime in South Asia". An assessment of the various non tariff barriers points out that India's certification procedures are convoluted causing import constraints and this instills a sense of fear among other SAARC countries. This is because in the region, India is the largest exporter.⁶⁴

There is a tendency of the South Asian Economies to protect their agricultural sectors by putting up a label of “sensitive list” on the agricultural products. Due to which there is low agricultural trade within the region. This hinders the smooth functioning of regional cooperation in agricultural trade. If this restriction was omitted, then via the exchange of agricultural products within the region, poverty could have been reduced to some extent.

Sensitive List

Country	Total no: of products in the sensitive list (LDC and Non LDC)	No: of Agricultural products in the sensitive list	% of Agricultural products to total products in the sensitivity list
Bangladesh	1241	149	21.01
India	868	247	28.46
Nepal	1295	359	27.72
Bhutan	150	101	67.33

Source: (Moazzem, 2012).

Subsistence Farming is self-sufficiency farming in which the farmers focus on growing enough food to feed themselves and their families. The typical subsistence farm has a range of crops and animals needed by the family to feed and clothe themselves during the year. The farmers in the South Asian Economies follow subsistence farming to a large extent, as a result of which, production is not at all enough to carry out trade. There is limited surplus product, restricting exchange of agricultural outputs within the region. So, in a way this is another factor restricting the trade in agricultural products within the region.

The agricultural sector in South Asia uses traditional tools and backward technology for production. Due to which productivity is low and the quality of the agricultural output also suffers. This automatically leads to low levels of agricultural trade.

Agricultural exports of the SAEs happen in small basket of goods except for India. So automatically, various incentives like involvement of state trading monopolies, domestic support for the agricultural production and export influences the pattern of trade to a great extent. However these various incentives vary among the economies. But these incentives are not discussed in the PTA or BTA negotiations. Hence this causes unfair competition in agricultural product and trade.⁶⁵

In terms of area coverage, economic growth, share in the regional trade, India bags the first position. Automatically, India tries to participate in the decision making process of the region as a leader, which is objected by the other SAARC nations- Pakistan, Bangladesh and Sri Lanka. The political, diplomatic and security concerns felt by the other member countries of SAARC in South Asia has lead to an obstruction in any positive development of regional cooperation. Due

to this low level of integration, intra regional trade is also affected. This not only includes agricultural trade but also trade in services and merchandise.⁶⁶

The South Asian economies have same attributes like cheap labor, low incomes, low value added commodities. They also enjoy comparative advantage in same products like tea, cereals, spices, garments, textile and so on. Thus it is difficult to carry out trade within this region when the products traded, economic structure and institutional infrastructure are same. Thus this factor also reduces the intensity of trade in this region.

WAY FORWARD:

In order to reduce the level of rigidness of the above mentioned restrictions, this paper provides certain suggestions and policy recommendations. The tariff levels in this region are very high. As a result of which, the full potential of intra regional trade (in any sector) is not realized. Therefore, lower tariff rates should be established in order to carry out intra regional trade smoothly. However, on the agricultural commodities, ad valorem tax is applied. The percentage of agricultural tariff is low as compared to tariffs on other products. But specific tariff and TRQ has been used to protect the agricultural commodities in the sensitive list. Hence a reduction in TRQ is required so that even the sensitive agricultural commodities can be easily traded.⁶⁷

The number of agricultural commodities included in the trade negotiations is very limited. Most of the commodities are in the sensitive list. Thus, the agreements should relax the limitation on the products so that more agricultural products can be traded within the region, thereby having a positive effect on reducing poverty through intra regional agricultural trade.

There is a need to promote Joint Marketing strategy in the regional level so as to make the enterprises more efficient. This can be done through promotion of joint ventures between regional commodity exporters for quality packaging and marketing and value addition.

The commodity may include tea, coffee, jute, cardamoms, basmati rice, etc. which are currently traded in bulk and are subject to low unit value realization. This would also promote branding and marketing of products. This strategy will fetch the producers' high price for the commodities. Because under normal conditions, small farmers are unable to bargain efficiently for better price in the wholesale market and incurs a loss. Regional cooperation in this area for marketing may help in overcoming some of these hurdles.⁶⁸

On the political front Conflict Conciliation Group (CCG) should be formed to address the bilateral disputes among the SAARC nations and in this case the BBIN Nations. This will help in investigating the issue or a fact finding survey. The composition can include representatives from each country.⁶⁹

SAARC, being an emerging organization and having the potential to link the resourceful economies of South Asia, must include in its provisions to resolve the bilateral disputes

peacefully and the provision of taking all the decisions unanimously without touching bilateral ones should be relaxed rather eradicated. Though it would not be very easy to initiate but it should be initiated because without this step, the overall development of this organization is meaningless. The principles of respect for territorial sovereignty, political independence and non-interference should not be avoided.⁷⁰

In strengthening BBIN, the role of individual governments of all the four member countries is very important. The lack of trust and sincere efforts has marred any development in this organization. When all the steps are taken with constructive thinking and a vision for sub-regional integration then no doubt, BBIN can emerge as a powerful sub-region in South Asia.

Conclusion:

This paper probed into the various channels of strengthening regional co-operation via intra sub-regional trade in the BBIN sub-region of South Asia. The first step towards enhancing intra sub-regional trade has already been undertaken i.e. The Motor Vehicles Agreement. The main objective of the agreement is to provide un-hindered people-to-people communication and to develop regional economic interaction by facilitating cross border movement of people and goods. The motive behind the establishment of BBIN is to strengthen regional integration for peace, stability and prosperity in South Asia by intensifying cooperation, inter alia, in trade, investment, finance, energy, security, infrastructure, connectivity and culture.

Cross country power trade in the BBIN sub region has been identified as a relevant avenue for trade in the sub-region. In developing the power sector and the power trade in the sub-region, BBIN can learn from and replicate certain programs from power trade in international sub-regions. BBIN should engage in cross border power trade because power interconnections be it a regional one or an international one, will reduce the cost of producing electricity. Power trade also leads to transfer of cheaper surplus generation from one system to an expensive supplant generation in the other. Since, the power grids of the different countries will be connected and depend on each other's supply, the overall capacity required by the systems will be less and the emissions will also be reduced thus protecting the environment.

Apart from MVA and cross country power trade, BBIN can also unlock the potential of intra sub regional agricultural trade. This is because BBIN region is trying to solve the problem on poverty since decades. Poverty in the sub region is mainly concentrated in the rural regions. These rural regions depend mainly on agriculture for their survival. Hence it is of utmost importance for the sub-region to engage in agricultural trade. Cross country agricultural trade apart from strengthening regional cooperation, is also crucial for poverty reduction in the region. BBIN can follow certain measures related to agricultural trade in other sub-regions like ECOWAS, Central Asia and West African Union.

The above mentioned three avenues of trade in BBIN face certain challenges which are common to all the avenues like lack of harmonized legal and regulatory framework and tariff and non

tariff barriers. Besides these, there are other restrictions unique to the three sectors of trade. First of all for Motor Vehicle Agreement, the border crossing points does not have integrated and reliable check posts posing a serious threat to India's border and internal security. Bhutan and Nepal are short of civil engineering skills, poor condition of roads and other attributes required for a successful MVA. Another operational issue is that a permit is required every time a truck crosses the borders. Secondly for Cross Country Power adequate transmission and regional infrastructure is absent thus might be a hindrance to the smooth implementation of power trade in the sub region. Thirdly for agricultural trade in the BBIN region major constraints are high sensitivity list i.e. a lot of agricultural commodities that needs to be traded are in the sensitive list, subsistence farming, usage of traditional technology due to which production and productivity has declined and lastly fear of Indian dominance.

Hence in order to correct such vices and overcome these problems, first and foremost there should be greater political will and rigorous support from the governments of the countries in the BBIN region. There should be a harmonized regulatory framework without which the BBIN sub-region will not flourish. There should be a healthy coordination between centre, state, and various concerned for timely execution of the programs. There is a need for public-private partnership to accelerate the progress of the programs as there is limited funding from the governments.

This research therefore paved the way for further development of the BBIN sub-region via trade in power and agriculture and a way for deeper sub-regional co-operation. BBIN has a lot of potential and these potentials need to be unlocked and the governments of the BBIN nations should also work in a harmonized manner so that BBIN becomes a successful one.

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