

EXECUTIVE SUMMARY

There is mounting fear that the COVID-19 pandemic repeats the scenario of a food security crisis similar to that experienced in 2007-2008. One particular area of concern is that protectionist trade policies magnify the negative economic effects of the pandemic and of the confinement measures implemented to suppress the novel coronavirus. At the time of writing, these concerns seem overstated. However, this does not mean that the trade effects of the sanitary crisis may not be disruptive for the agriculture sector in Latin America and the Caribbean. Policymakers should remain vigilant that trade policies are part of the solution and not of the problem.

LAC countries and sectors face a wide range of risks related to the impact of the pandemic on agriculture and food global markets. Net importers are exposed to risks on the supply side. Export restrictions implemented by key commercial partners and disruptions in production and logistics chains may affect them directly in the short run, and a spiral of rising food prices would distress them indirectly. At the opposite end of the spectrum, net exporters are exposed to risks on the demand side. Rising costs and obstacles along the trade routes will negatively affect them in the short run. However, in the medium run the impact will depend on the dynamics of global demand and export prices, in the context of the looming global recession.

Policymakers should be aware that trade restrictions could lead to adverse consequences for food security. LAC governments have fortunately been vocal about those risks in global and regional forums and should ensure that the reality on the ground lives up to these commitments. But trade policies can do more than doing no harm. Keeping the food supply chains gears moving with trade facilitation initiatives is an opportunity, not only to assuage the effects of the crisis in the short run, but also to lay the foundation of a resilient recovery thereafter.

The swift implementation of the following key trade policy priority action items would go a long way to facilitate trade and avert the disruption of food logistics chains:

- **Promote cooperation among customs and border control authorities** to implement a simplified, expedited emergency procedure for clearing critical goods, with a specific focus on food.
- **Consider lifting tariffs**, at least on a temporarily basis, on goods critical for food security, such as basic staples, fodder, and fertilizers.
- **Implement expedited licensing and certification processes** related to sanitary and phytosanitary standards, to avoid that legitimate health and safety regulations unnecessarily hinder trade.
- Use **non-intrusive control mechanisms to fast-track the release of goods**, with specific channels for perishable and cold-sensitive items.
- **Collaborate with reliable, certified importers**, such as the Authorized Economic Operators, and companies that frequently trade essential goods to facilitate import and export processes.
- **Maintain lines of communication with public and private players in the logistics chain** to communicate new processes and jointly adjust them according to the evolution of the emergency.
- **Lay the foundations of coordination border management systems** across the region, in order to emerge from the crisis with a more efficient trade infrastructure.

Looking ahead, policymakers in net food exporting countries can also harness public policy and the export potential of the agriculture sector to improve lives. Trade facilitation would reduce transaction costs in the value chains and boost export competitiveness in world markets. In the short term, the global recession, lower external demand, and falling agriculture prices will require the implementation of a challenging mix of stabilization policies and targeted social support measures to protect the livelihood of household whose income depends on the agricultural sector. Going forward, an overarching strategy built upon technical progress, trade competitiveness, climate friendliness, market diversification, product differentiation, and quality upgrade would be a contribution of the utmost relevance not only to the economic development of the region, but also to global food security.

HOW TRADE POLICY CAN HELP AVOID A FOOD CRISIS UNDER COVID-19¹

As the COVID-19 pandemic spreads around the world, advanced and developing countries are sinking into the most severe sanitary, social, and economic crisis since World War II. One particular area of concern is that protectionist trade policies magnify the negative economic effects of the pandemic and of the confinement measures implemented to suppress the novel coronavirus. While trade restrictions on medical supplies were the first to come into focus, more recently, attention has shifted to food security.

The memory of the food price crisis of 2007-2008 turning into social unrest is still vivid in the mind of policymakers. That episode showed that policy concerns about food security can quickly spiral into a price crisis. At that time, in the context of a preexisting upward trend in prices, export taxes in major global players pushed world market prices up and led other exporters to adopt trade restrictive measures in an effort to protect consumers from welfare losses. At the other end of supply chains, food-importing countries lowered tariffs and supported demand, thereby pressuring prices upward. The result was a sudden overshooting of food prices, which negatively affected the livelihood of millions of people in the developing world. While non-cooperative trade policies were not the only determinant, they did contribute to the price flare-up (Bouët and Laborde, 2012).

The recent trend in the implementation of similar measures in response to COVID-19 has sparked concerns that developing countries face another food security crisis. Albeit in a different context, the pandemic threatens global food supply chains in many ways. As workers are prevented to access fields and processing facilities, containment measures drive supply shocks, particularly in labor-intensive sectors. Food distribution channels face disruptions due to the interruption of logistics and refrigeration chains, in addition to higher costs derived from the inefficient use of carriers, which overwhelmingly affect

¹ The authors acknowledge the comments and suggestions received from Fabrizio Operti, Jaime Granados, Mauricio Mesquita Moreira and Kathia Michalczewsky of the Integration and Trade Sector (INT), and from Paolo Di Salvo, Lina Salazar and Elettra Legovini of the Climate Change and Sustainable Development Sector (CSD). Ayelén Vanegas of the Institute for the Integration of Latin America and the Caribbean (INTAL) provided valuable research assistance in the collection of trade restrictive measures.

perishables and high-value commodities. On the demand side, a global recession would certainly lead to income losses with dire implications for the poor who spend a large share of their income in food, and for exporters who rely on global markets to sell crops and food. Beggar-thy-neighbor trade policies exacerbate these risks, and policymakers around the globe should be reminded of the unintended consequences of the policy mistakes of the past.

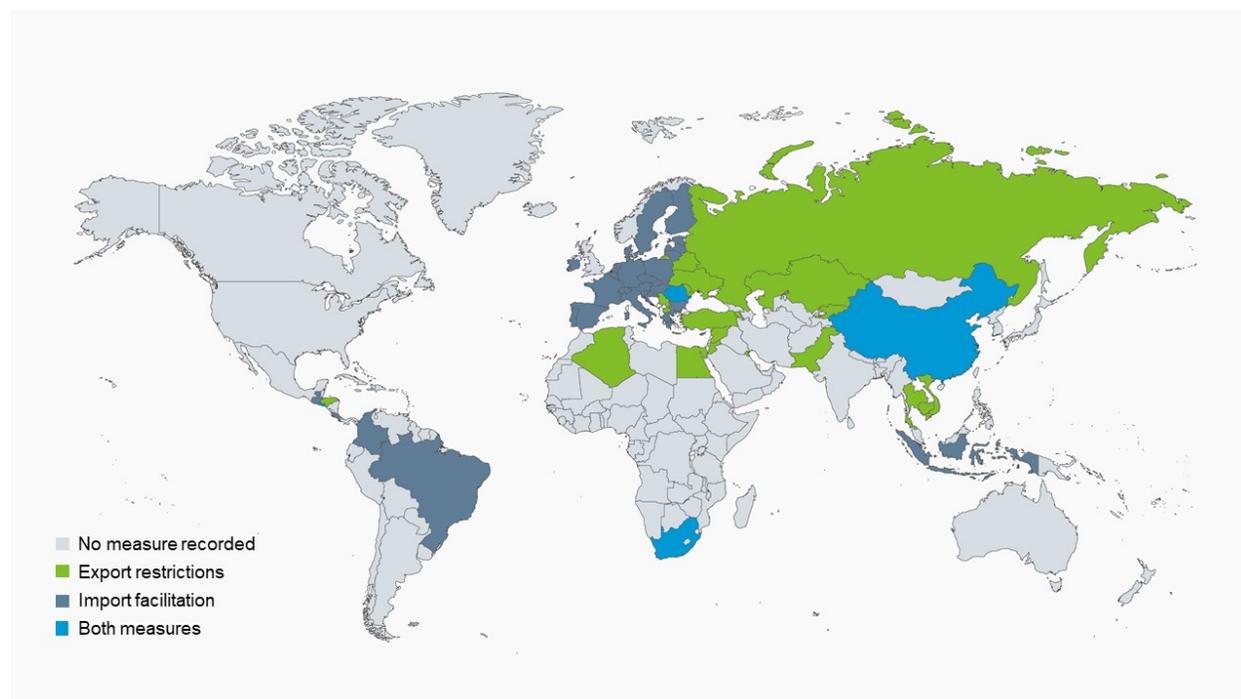
With these concerns in mind, this policy brief provides a review of the trade measures affecting trade in agriculture commodities implemented since the outbreak of the pandemic. Against this background, it assesses the exposure of the economies of Latin America and the Caribbean (LAC) to disruptions in food supply chains. It concludes that while the risk of price surges damaging for net food importers are not as high as they were during the last food price crisis, several countries are vulnerable to disruptions, including in the intra-regional market. However, in the current juncture, net exporters face the highest risks related to the global recession, lower external demand and falling commodity prices. Policymakers should remain vigilant, continue to advocate for the preservation of the free flow of food, and undertake critical trade facilitation measures to keep the value chains moving.

I – Policy Measures Related to Food and Agriculture Trade under COVID-19

Since the outbreak of the COVID-19 pandemic, several countries around the world, including in LAC, implemented policy measures affecting trade in agriculture and food products. In some countries, trade policy provisions such as export restrictions, prohibitions, and more stringent licensing requirements sought to guarantee the adequate supply of domestic markets. In others, the objective was to facilitate market access

through the temporary elimination of customs duties and other taxes, such as excises or VAT. Map 1 displays an unofficial account of the measures announced to date.²

MAP 1 - Countries with trade policy measures in food and agriculture announced as of May 28, 2020.



Source: IDB, Integration and Trade Sector, based on data from MacMap, IFPRI, WTO, ePing, and national sources.

TABLE 1 – Indicative list of food and agriculture products affected by trade policy measures

Trade measure	Countries	Products
Export restriction	Algeria	Semolina
	Armenia, Belarus, Russia	Onions, garlic, rye, rice, buckwheat, millet, whole grains and cereal granules, peeled buckwheat, crushed and unprocessed soybeans and sunflower seeds
	Cambodia, Myanmar, Vietnam	Rice
	China	Grains

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² The tally includes the announcement of trade measures according to a variety of non-official sources. Not all of them have been formally notified to the WTO. See EUl *et al.* (2020) or Laborde *et al.* (2020) for a real-time tracking of such measures.

	Egypt, Honduras, El Salvador	Legumes / beans
	Kazakhstan	Potatoes, onions, garlic, leeks, carrots, turnips, beets, cabbage, cauliflower, kohlrabi, rye, rye flour, rice, millet, soybeans, wheat flour, cereals, whole meal and granules from cereal grains, buckwheat, peeled buckwheat, prepared foods from buckwheat, sunflower seeds, sunflower oil, and white sugar
	Kyrgyzstan	Onions, garlic, turnips, rye, rice, buckwheat, millet, cereals, whole meal and granules from cereal grains, peeled buckwheat, prepared foods from buckwheat, crushed and uncrushed soybeans and sunflower seeds, wheat, flour, vegetable oil, sugar, chicken eggs, pasta, compound feed and bran, disinfectants and antibacterial, and napkins
	Moldova	Grains
	North Macedonia	Wheat, wheat flour
	Pakistan	Onion
	Romania	Wheat, barley, oat, maize, rice, wheat flour, soybean, sunflower, seed oil, sugar, and some bakery and pastry products
	Serbia	Sunflower oil, molasses, and yeast
	South Africa	Wine, beer, and spirits
	Syria	Egg, cheese, yogurt, and canned and packed cereal and beans
	Thailand	Eggs
	Turkey	Lemons
	Ukraine	Wheat, buckwheat
	Import facilitation	Brazil
China		Farm products
Colombia		Corn, grain sorghum, soybean, and oil cakes and other solid residues, ground or in the form of granules, resulting from the extraction of soybean oil
Costa Rica		Rice
El Salvador		Beans, corn, and rice
Guatemala		Corn
Indonesia		Onion and garlic
Saint Kitts y Nevis		Vegetables, fruits, and fruit juices
Switzerland		Eggs, milk, cream, and butter
Trinidad y Tobago		Potatoes, rice, and pasta

Source: IDB, Integration and Trade Sector, based on data from MacMap, IFPRI, WTO, IMF, and national sources.

Note: The trade policy measures listed have been announced between March 14 and May 28, 2020 but are not necessarily still binding or effective.

As expected, the items most frequently targeted include staples that account for a large share of basic food baskets, such as cereals, oils, grains, rice, legumes, meat, and food preparations (Table 1). However, Colombia is an example of a country that implemented trade liberalizing measures in crops and preparations used as fodder. The latter highlights the concern that the proliferation of trade restrictions may disrupt domestic food supply chains, which increasingly rely on imported inputs to function.

II – The Vulnerability of LAC to Food Chains Disruptions

The exposure to the risk of food chains disruptions is relatively heterogeneous across the region. The food vulnerability index reported in Table 2, allows to compare LAC with other economies around the world. The index is constructed as the weighted average of GDP per capita, food expenditure as a share of total household expenditure, and net imports of food (Nomura, 2019). Ranked 13th out the 110 countries for which the index is available, Jamaica emerges as the most vulnerable LAC country.³ It is followed by El Salvador and Venezuela, at positions 30 and 35, respectively.

TABLE 2 - Food vulnerability index

(Rank and index, 2018)

	Country	Rank	Food Vulnerability Index
Top 10	Libya	1	101.7
	Tajikistan	2	101.6
	Montenegro	3	101.6
	Syria	4	101.5
	Algeria	5	101.1
	Jordan	6	101.0
	Lebanon	7	101.0
	Laos	8	101.0
	Kyrgyz Republic	9	100.9
	Albania	10	100.9

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³ The ranking does not include all LAC countries. Jamaica, the only Caribbean economy for which the index is available, is indicative of the high vulnerability of the whole Caribbean subregion, compared to the rest of LAC and the world.

LAC countries	Jamaica	13	100.8
	El Salvador	30	100.5
	Venezuela	35	100.4
	Dominican Rep	53	100.0
	Bolivia	57	99.9
	Guatemala	58	99.9
	Colombia	60	99.9
	Mexico	61	99.9
	Peru	69	99.8
	Brazil	78	99.6
	Argentina	84	99.5
	Costa Rica	87	99.5
	Chile	92	99.3
	Ecuador	98	99.1
	Uruguay	99	99.1
Nicaragua	108	98.7	

Source: Nomura.

On the other hand, countries as Nicaragua, Uruguay, or Ecuador, ranked at the bottom of the list, fare well in terms of food vulnerability. However, for these net food exporters, lower demand in partner countries and falling prices due to a global recession represent a risk as these affect a significant source of national income and foreign exchange.

III – Net Food Trade Position of LAC Economies

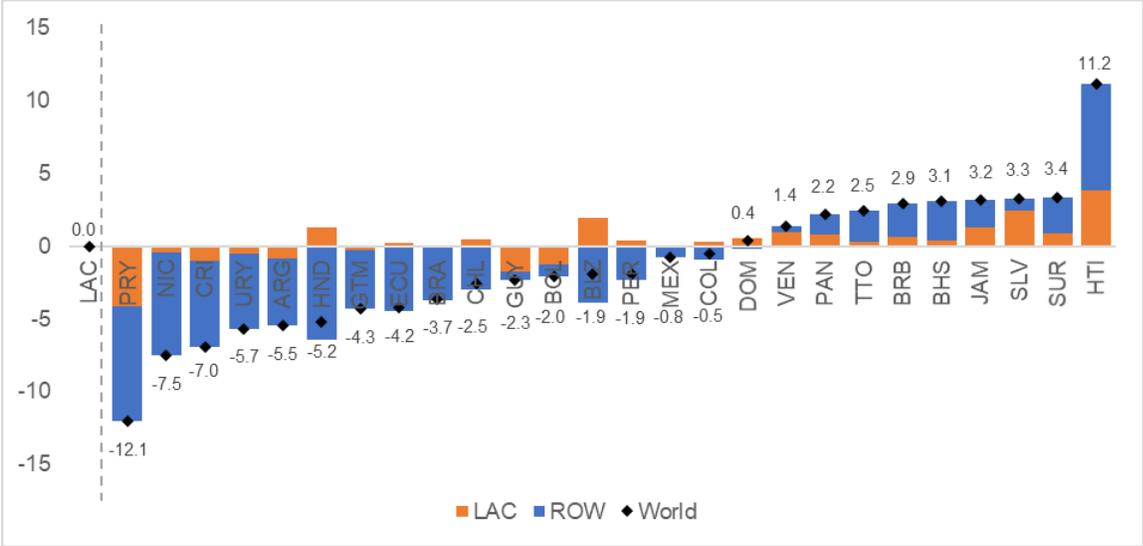
A key indicator to determine the exposure to the risks of food chains disruptions due to trade policy restrictions or to a downward trend in global demand is the ratio of net imports of food for human and animal consumption over GDP.⁴ Considering the LAC region as a whole, between 2016 and 2018 the ratio was nearing 0%, suggesting that the region is on the aggregate self-sufficient in the food sector (Figure 1). However, countries fare quite differently within the region and across sectors.

⁴ Trade statistics are reported according to the FAO Definition and Classification of Commodities. While the classification includes all agriculture-based primary crops and derived products, this study excludes hides and skins and focuses on items related to food for human and animal consumption, simply referred to as food. For simplicity, product categories refer to the main staple, although they include processed products.

Haiti stands out as the most vulnerable economy with the highest share of net imports of food with respect to GDP (11.2%). While it relies heavily on purchases from the region itself, equivalent to 3.8% of GDP, the bulk of food imports are sourced in the rest of the world (7.3% of GDP). Suriname and El Salvador's net import ratios are lower (3.4% and 3.3% of their GDP, respectively), but in the latter, imports from the region play an important role, amounting to three quarters of total food imports.

At the other end of the spectrum, Paraguay is an example of an economy vulnerable on the income side, as net exports represent 12.1% of GDP, of which over a third are shipped to LAC.⁵ Nicaragua, Costa Rica, and Uruguay are also net food exporters (7.5%, 7.0%, and 5.7%, respectively), but the relevance of the region as a destination market is relatively small (5.6%, 15.0%, and 9.7%, respectively). For these countries, disruptions in food supply chains may have opposite effects. Upward pressure in prices due to the proliferation of trade protection measures would be beneficial, whereas a reduction in the volume of trade flows, be it induced by export curbs or a generalized reduction in demand, would lead to welfare losses.

FIGURE 1 - Net imports of food in LAC
(Percentage of GDP, 2016 to 2018)



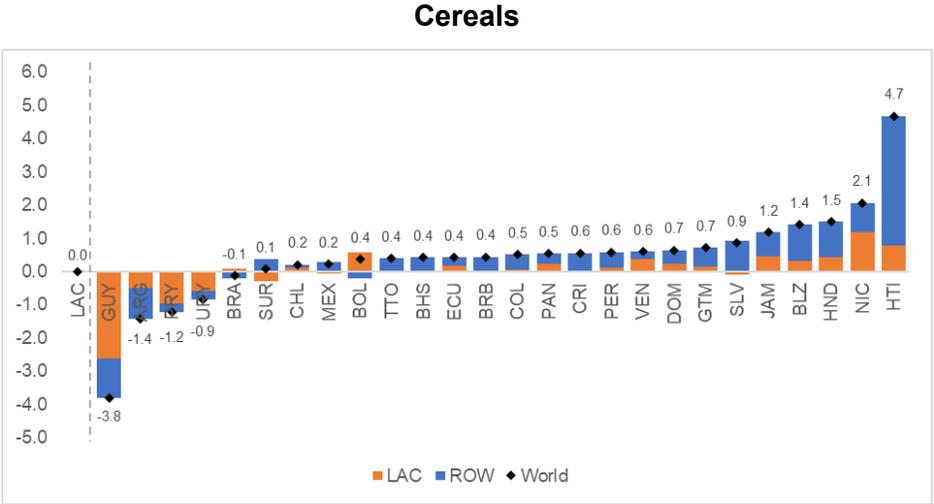
Source: IDB, Integration and Trade Sector, based on CEPII-BACI (trade), World Bank and IMF (GDP).

⁵ However, a large share of intra-regional exports is subsequently re-exported to global markets in bulk or processed.

It is finally worth noting that some countries, like Honduras, Ecuador, Chile, Belize, or Colombia, are net importers of food from the region and net exporters to the rest of the world. Whether the sources of trade disruptions are located in the region itself or in the rest of the world thus matters for food security and for the stability of export income.

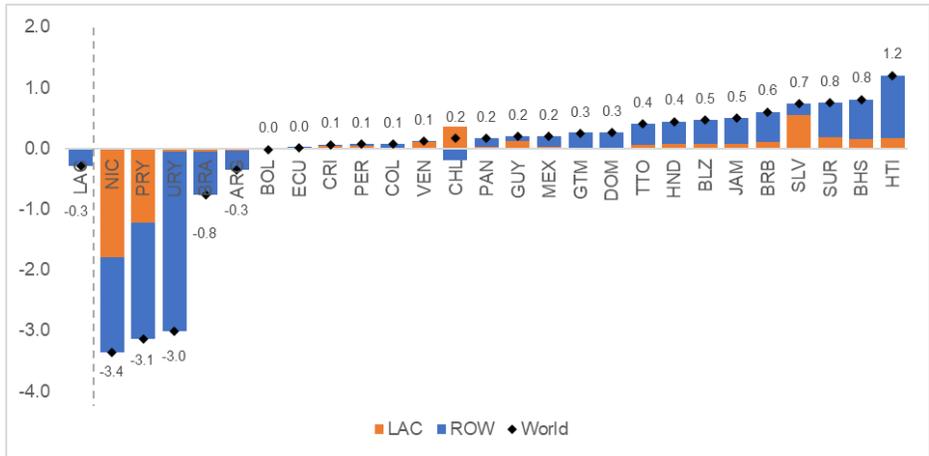
At the product level, there is also wide heterogeneity among LAC economies (Figure 2).⁶ For example, in cereals, while some countries as Guyana, Argentina, and Paraguay are net exporters, the majority are net importers. Haiti is the country where net food imports amount to the largest share of GDP (4.7%), with more than half corresponding to a single product, rice. Nicaragua's net imports represent 2.1% of GDP. About half of these are made up of purchases of rice, pastries, and infant food from the region, whereas wheat and maize are imported from the rest of the world. On the export side, Guyana's net sales of cereals amount to 3.8% of GDP. Rice is the dominant product and more than two thirds of the value of exports is shipped to LAC countries. Paraguay also sends almost 80% of exports of maize, rice, and wheat to the region itself, while for Argentina (maize and wheat) the rest of the world is the main market.

FIGURE 2 - Net imports of food in selected categories of products
(Percentage of GDP, 2016 to 2018)

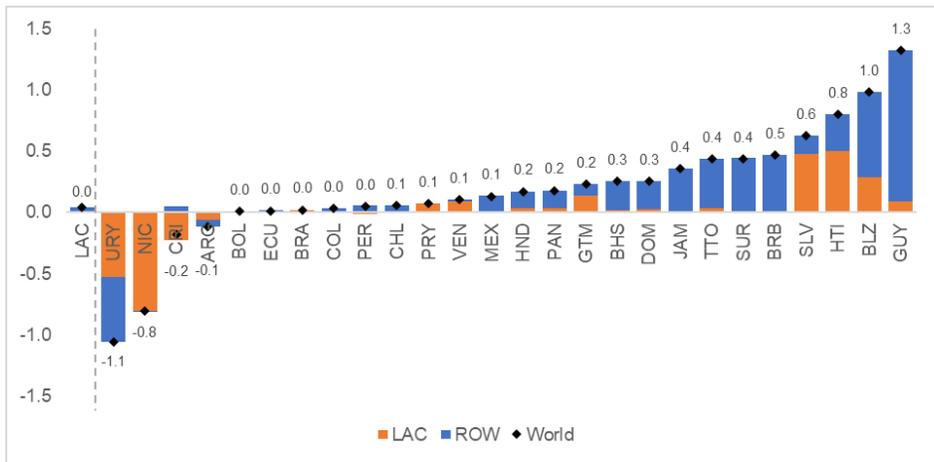


⁶ Figure 2 displays only an indicative subset of food categories. In LAC, for 2016 to 2018, fruits represented 14% of total trade, cereals and products from slaughtered animals represented 11% each, while products from live animals 2%. Even though the weight of the latter in total trade is small, it is a group of products that represents an important component of the basic diet and trade is highly relevant for several LAC countries. Other key commodities include oil-bearing crops (15%), fodder (9%), coffee (7%), and sugar and beverages (6% each). All others together account for less than 10% of total exports of food.

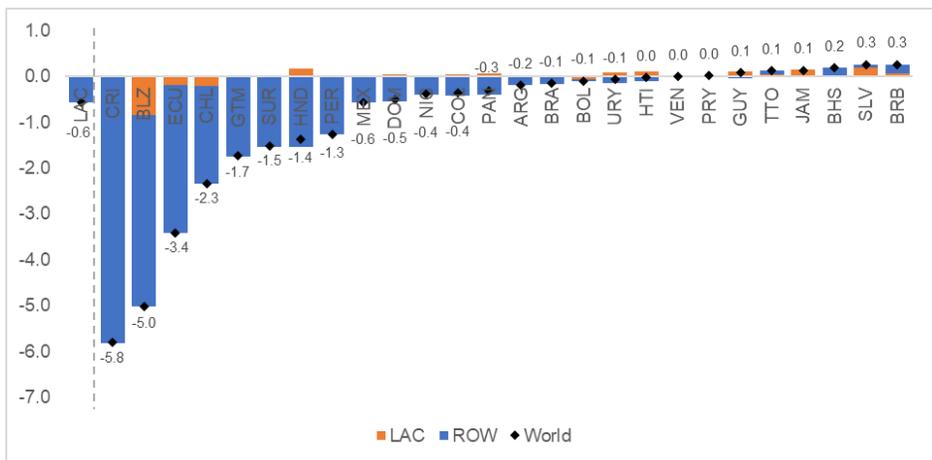
Products from Slaughtered Animals



Products from Live Animals



Fruits



Source: IDB, Integration and Trade Sector, based on CEPII-BACI (trade), World Bank and IMF (GDP).

Being labor-intensive, products from slaughtered animals are particularly sensitive to containment measures. They also account for a large share of intra-regional trade. El Salvador's net imports amount to 0.7% of GDP. Remarkably, three quarters of these, mainly bovine meat, are purchased in the region. Chile is a peculiar case, since it is a net importer of bovine meat from the region, and a net exporter of offal to the rest of the world. Nicaragua, Paraguay, and Uruguay stand out as net exporters of bovine meat (3.4%, 3.1%, and 3.0%, respectively). In the two former cases the region is an important destination market, whereas the latter is a global exporter.

Products of live animals, mostly dairy, also account for a large share of intra-regional trade. Guyana's net imports as a share of GDP are the largest, followed by Belize's (1.3% and 1.0%, respectively). Guyana mainly imports dry milk and eggs from the rest of the world, while Belize imports cheese from the region and dry milk from the rest of the world. Among net exporters, Uruguay stands out with 1.1% of GDP. It exports mainly dry milk, in equal shares to LAC (Brazil) and the rest of the world. On the other hand, the bulk of Nicaragua's net exports in this class of products, mainly cheese, corresponds to sales to the region itself.

Fruits provide an example of a product group in which LAC countries are big players in global markets. It is the category most traded by the region after oil-bearing crops, and several countries of LAC are net exporters. For Costa Rica net exports, mostly bananas and pineapples sold to the rest of the world, account for 5.8% of GDP. Net exports of Belize are also high and represent 5.0% of GDP. The country ships bananas and orange juice to the rest of the world, while sales to the region consist of a variety of fruit juices. Ecuador specializes in bananas while Chile sells high-value grapes, cherries, and apples, given the climate complementarity with many advanced economies. Interestingly, Honduras is a net importer of avocados and grapes from the region, and at the same time a net exporter of bananas and pineapples to the rest of the world.

While the breakdown at the product level reveals the vulnerability to sector-specific disruptions, the overall net trade position is more informative of whether a country is exposed to risks affecting the supply or the demand side (Figure 3).

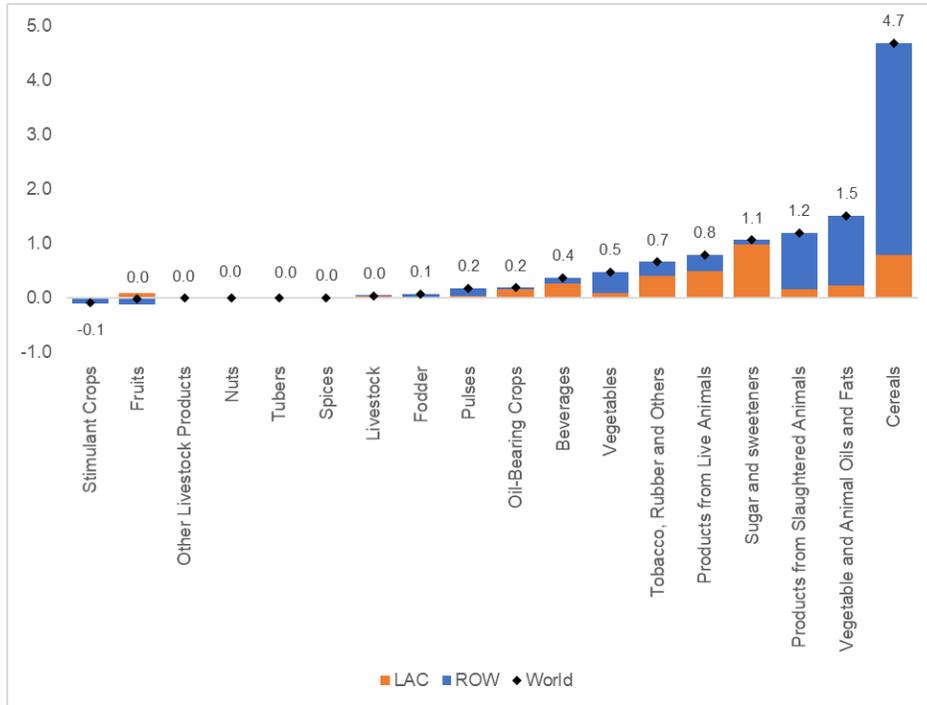
Haiti represents the starkest case of a country facing high risks related to the supply side. The Caribbean country is a net importer in all food categories but one, particularly basic staples such as cereals, vegetable and animal oils, or products from slaughtered and live animals. A surge in world prices, or scarcity in international markets due to supply chains disruptions or quantitative restrictions in exports, could set the country on course for a damaging food security crisis.

Colombia is an example of a country with an overall reduced net food import position (0.5% of GDP), but with significant differences across product groups. Therefore, while the balance of risks is in general moderate, specific sectors are exposed to several sources of disruption. Domestic supply shocks and lower demand from partner countries may affect the products where the country is a net exporter, such as stimulant crops (coffee), fruits, and tobacco and other crops. High-value commodities such as perishable fruits and vegetables or flowers are particularly sensitive to disruptions and rising costs in the logistic and refrigeration chains. Whereas export restrictions in trade partners or in big global players may affect cereals, fodder crops, and beverages, where Colombia is a net importer.

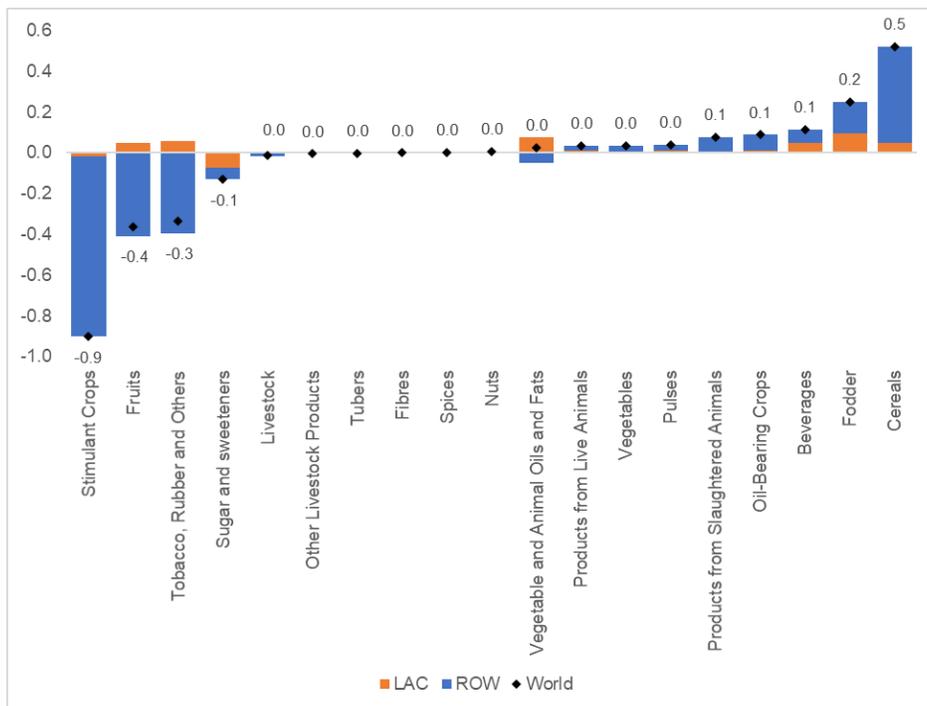
El Salvador provides an example of a country particularly subject to disruptions to intra-regional supply chains, since three quarters of its net imports come from LAC. Exposure to food vulnerability is significant as the highest import shares are in basic staples such as cereals and products from slaughtered and live animals. However, while animal products are bought in the regional market, cereals imports are sourced in the rest of the world. On the export side, the country is a net exporter of sugar and stimulant crops (coffee), principally shipped to extra-regional markets.

FIGURE 3 - Net imports of food in selected LAC countries
(Percentage of GDP, 2016 to 2018)

Haiti

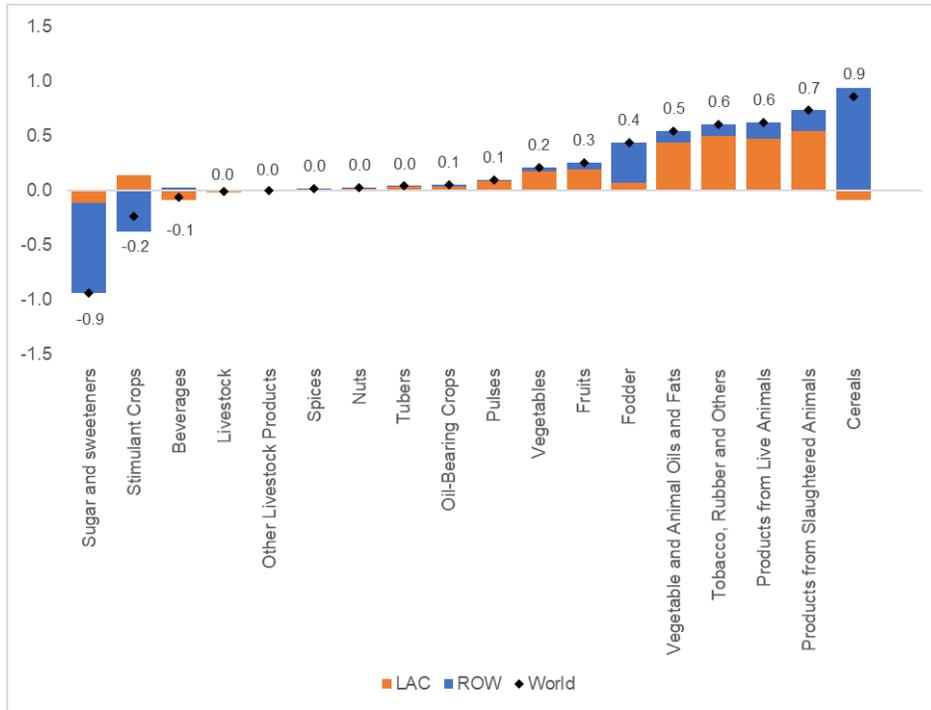


Colombia

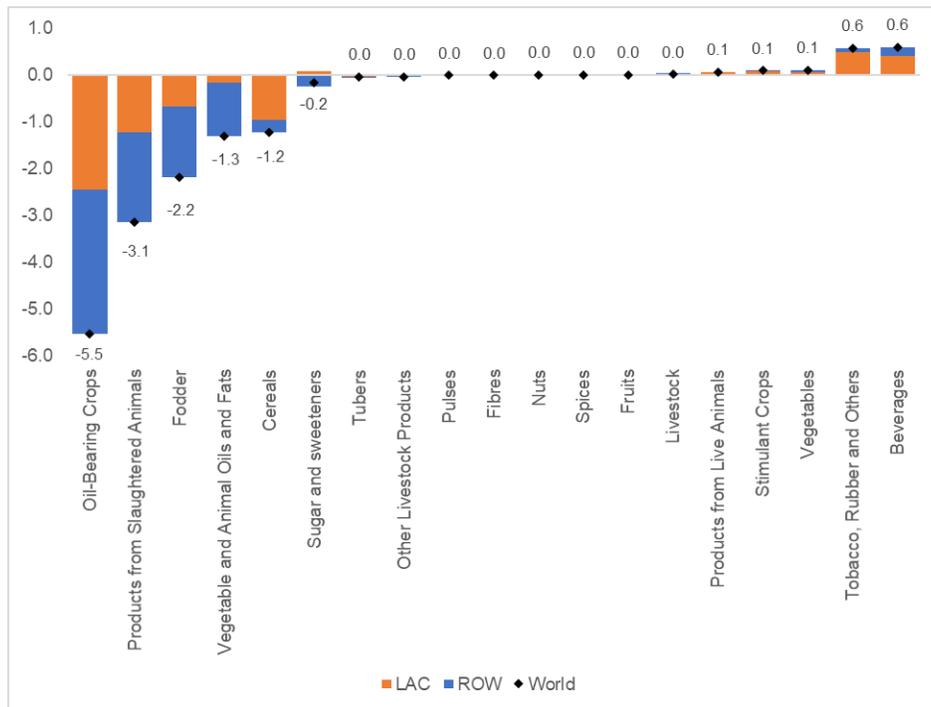


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El Salvador



Paraguay



Source: IDB, Integration and Trade Sector, based on CEPII-BACI (trade), World Bank and IMF (GDP).

On the opposite, the position of Paraguay is quite solid from the point of view of food security, but it could suffer from a reduction in export flows due to lower demand in destination markets and falling global prices. Net exports of goods such as oil-bearing crops, products from slaughtered animals, fodder crops, vegetable and animal oils, and cereals are all positive and significant. In other product groups the net trade position is generally balanced. The largest net purchases occur in beverages, particularly in beer imported from the region.

IV – Risk Exposure in the Short and Medium Run

Against this backdrop, the geographic structure of trade flows is key to assess the balance of risks in the short to the medium run. Referring to the selected examples discussed so far, this section explores the composition of imports and exports by trade partner and category of products.

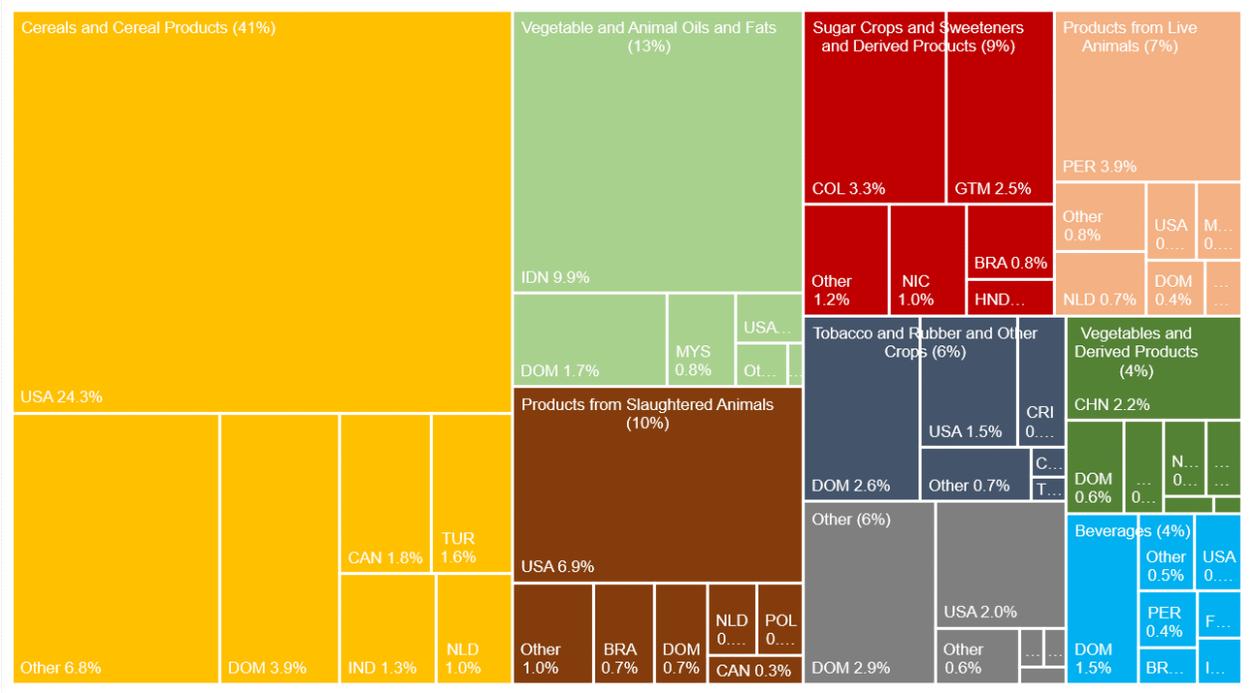
In Haiti, cereals represent 41% of total imports and the United States (US) is the main supplier of rice, followed by far by the Dominican Republic, which provides wheat flour and pastries (Figure 4). Vegetable and animal oils and fats, which account for 13% of total imports, are dominated by shipments of palm oil from Indonesia, while the Dominican Republic sends linseed and soybean oil. The third most imported category, with 10% of the total, is products from slaughtered animals, where the US is an important supplier of poultry.

Trade restrictions could be devastating, particularly if they contribute to a price crisis similar to that witnessed in 2007-2008. So far, none of the main partners have implemented export restrictions and direct impact is thus not a cause of concern. However, the export curbs adopted by Vietnam, the third largest global exporter of rice, should be watched as they have the potential to set on a surge in the price of the commodity (Martin and Anderson, 2011). Likewise, capacity issues in the slaughterhouses affected by coronavirus contagions in trade partners, as well as

disruptions and higher costs in logistics chains would represent a dire threat to food security.

FIGURE 4 - Haiti: Imports of food by product category and partner

(Share of total imports of food, percentage, 2016 to 2018)



Source: IDB, Integration and Trade Sector, based on CEPII-BACI.

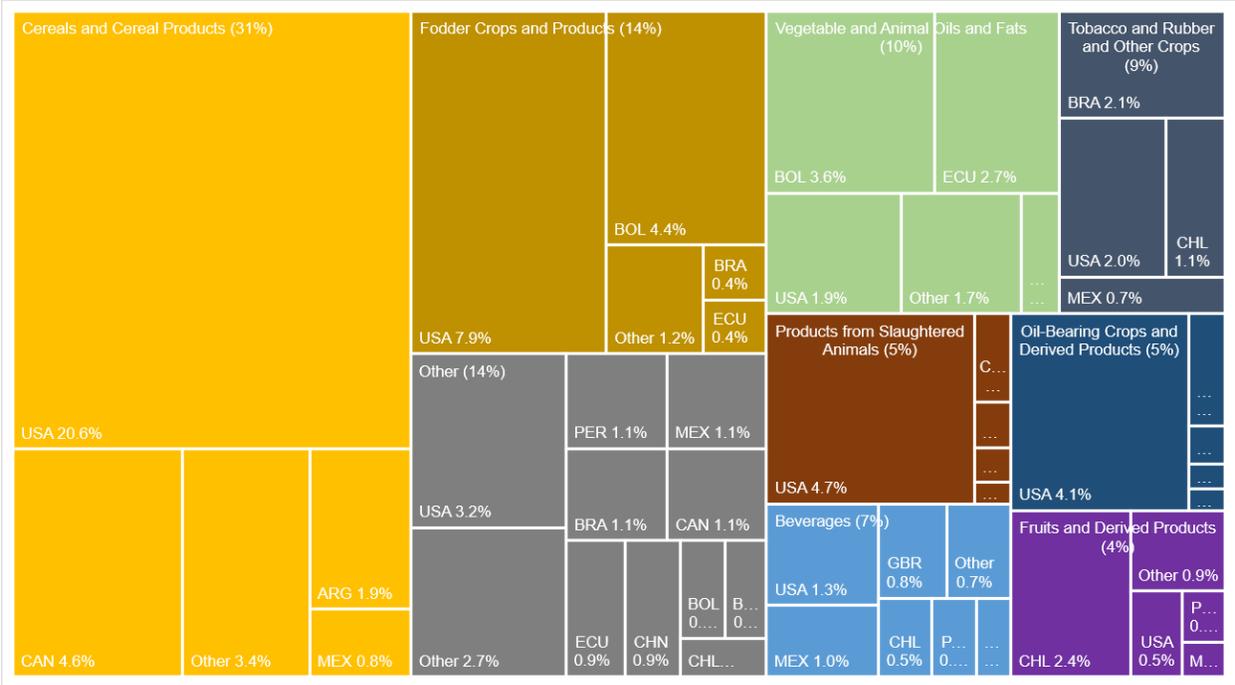
The import basket of Colombia is somewhat more diversified (Figure 5). Cereals is the main category, representing 31% of total imports, are mostly supplied by the US (maize) and Canada (wheat). Fodder crops, mainly soybean cake, account for 14% of total food imports. The US provides more than half of total imports in this category and is followed by Bolivia which supplies close to a third. The third group of products is vegetable and animal oils and fats, representing 10% of total imports, mostly supplied by Bolivia (soybean oil) and Ecuador (palm oil).

Given the geographical structure of supply chains, Colombia is not directly exposed to risks of trade disruptions. However, also in this case, the price dynamics in the cereal sector should be watched closely. Likewise, other sectors such as fodder and vegetable and animal oils are also not of immediate concern as trade curbs have been so far

implemented by relatively minor global players and the risk of those being reflected in global prices surges is low. The reduction of import duties adopted by Colombia in these sectors should also contribute to ease the price pressure on domestic consumers. However, as mentioned, rising costs and disruptions in the logistics chains threaten several high-value export sectors.

FIGURE 5 - Colombia: Imports of food by product category and partner

(Share of total imports of food, percentage, 2016 to 2018)



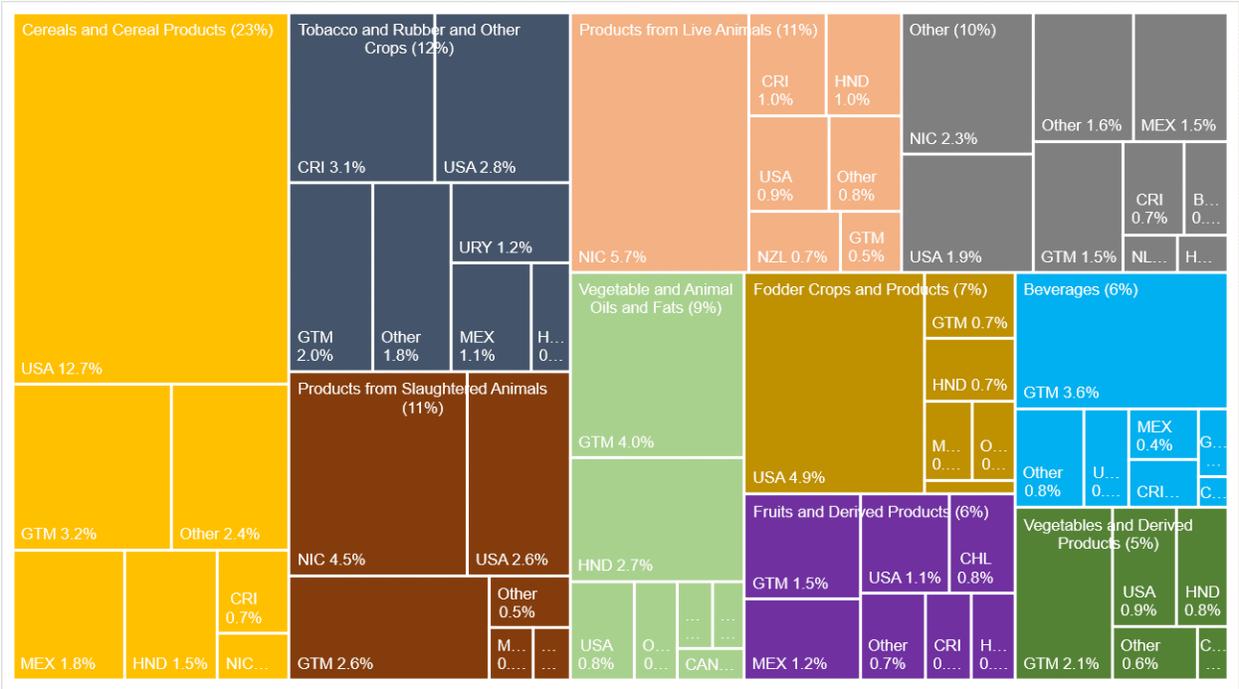
Source: IDB, Integration and Trade Sector, based on CEPII-BACI.

In the case of El Salvador, cereals also account for the largest share (23%) of food imports (Figure 6). The US supplies more than half of those, mainly maize and wheat, while the next trading partner, Guatemala, provides pastries and breakfast cereals. Products from slaughtered animals represent 11% of total imports. Neighboring Nicaragua accounts for about half of the value of the shipments and mainly trades bovine meat. Sales from the US account for one fourth and consist of pork, poultry, and bovine meat. Intra-regional trade is also large in the category of products from live animals. Nicaragua supplies more than half of these, namely cheese, while Costa Rica and Honduras jointly account for one

fourth of imports in this segment, mainly milk in the case of Costa Rica and cheese in that of Honduras.

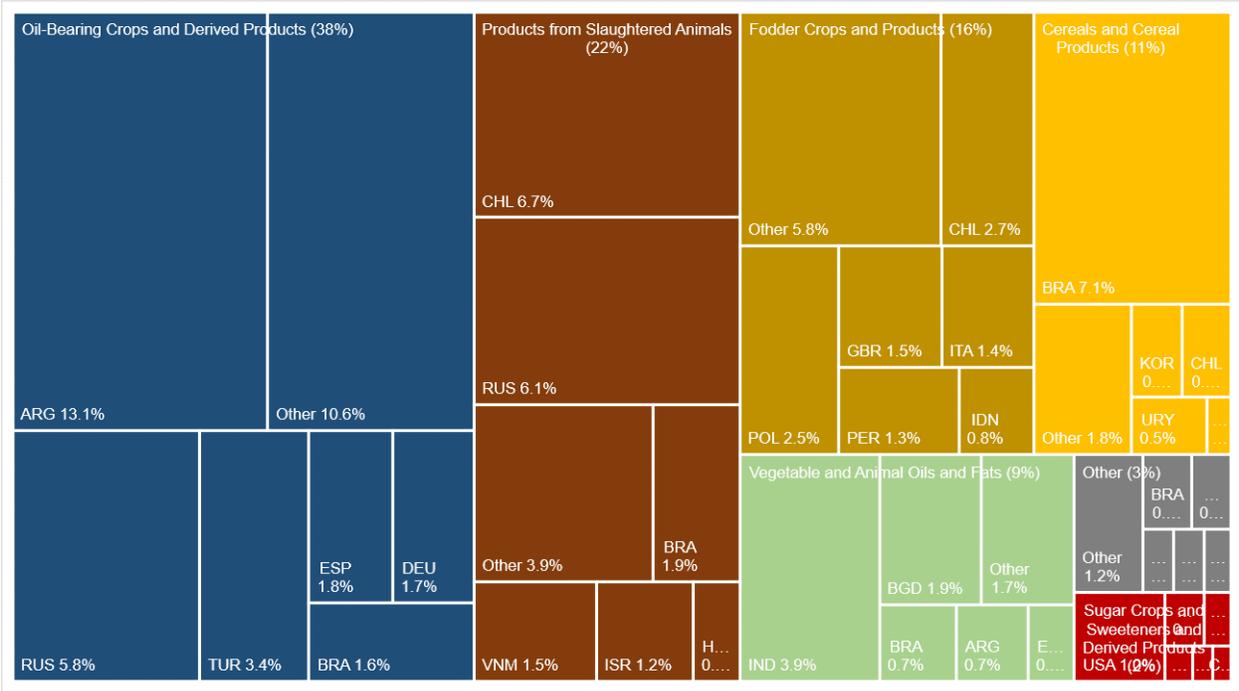
Like the other countries of the region mentioned so far, El Salvador is thus vulnerable to a price surge in cereals. Other key imported goods such as meat, dairy, and food preparations have so far not been the object of trade restrictions but are exposed to risks arising from the disruption of intra-regional logistics chains or supply-side constraints in neighboring countries, particularly Nicaragua. Moreover, the curbs imposed by Honduras on exports of beans and other leguminous may push domestic prices up and result in welfare losses for consumers.

FIGURE 6 – El Salvador: Imports of food by product category and partner
(Share of total imports of food, percentage, 2016 to 2018)



Source: IDB, Integration and Trade Sector, based on CEPII-BACI.

FIGURE 7 - Paraguay: Exports of food by product category and partner
 (Share of total exports of food, percentage, 2016 to 2018)



Source: IDB, Integration and Trade Sector, based on CEPII-BACI.

As mentioned earlier, Paraguay illustrates the case of a net food exporter, for which the balance of risks is very different from that of the countries considered so far. Oil-bearing crops, products from slaughtered animals, and fodder jointly represent three quarters of total exports (Figure 7). For Paraguay, the intra-regional market is important, since in these three categories the top partner belongs to LAC.⁷ For oil-bearing crops, mostly soybean, accounting for 39% of total food exports, the main destination markets are Argentina, Russia, and Turkey. Products from slaughtered animals, such as bovine meat, are sold mainly to Chile, Russia, and Brazil. Lastly, for fodder crops and products, mostly cake of soybean, the main destinations are Chile, Poland, and the United Kingdom.

These products have not generally been targeted by protectionist measures of key global players and are not likely to experience price surges due to trade policies. It is thus unlikely that Paraguay will benefit from them. However, lower demand in the context of a

⁷ Although, as mentioned, in some cases intra-regional partners are merely intermediate destinations of goods re-exported to world markets.

global recession would affect export revenues, as export volumes and prices are pressured downward.

V – Assessing the Balance of Risks for Latin America and the Caribbean

A cursory review of the short-term price dynamics of the main commodities traded by the region supports the notion that under COVID-19, risks for LAC food security may originate more likely on the demand rather than on the supply side. Between January and April 2020, the prices of the main imported components of the basic food basket trended upward in rice (+19.7%), but clearly downwards in wheat (-6.7%), maize (-14.5%), beef (-11.8%), and chicken meat (-38.8%). Even though the sharp devaluation of LAC currencies may limit the benefits of lower international prices for consumers in net food-importing countries, these trends are good news for food security. On the export side, albeit mixed, the picture also points to a downward trend, with negative implications for households whose income depends on these sectors. Prices were falling in soybean (-6.7%), beef (-11.8%) and sugar (-27.8%), and growing in coffee (+2.7%) and fruits, such as bananas (+9.3%).⁸

This crisis is indeed different in many ways from the price crisis of 2007-2008. Global inventories of cereals are substantially higher and stock-to-use ratios are close to the long-term median. Harvests of staples are expected to be good, particularly in the US, whereas weather events in Australia and Ukraine were one of the causes of the past crisis. Oil prices are at historical lows, as opposed to the rising trend that put pressure on food production then, and drove high costs of fertilizers, substitution for energy-bearing crops, and speculation in commodity markets.

On the trade policy front, in the previous crisis more than thirty countries adopted different forms of export curbs affecting 28% of global trade. Today only a dozen, affecting an estimated 6% of trade, have implemented protectionist measures. Moreover, some

⁸ Prices are sourced from World Bank (2020). When the prices of different varieties of a commodity are available the simple average is reported.

quantitative restrictions have been already softened, like the export ban on rice from Vietnam, or are not yet binding, such as the wheat quotas of Russia and Ukraine, although they may in the coming weeks (Martin and Glauber, 2020).

On the supply side, the very nature of the crisis ushered by the COVID-19 epidemic mitigates some risks and exposes agriculture sector to others. Confinement measures and social distancing are likely to have only a minor impact on the production of mechanized extensive crops, such as wheat or soybean, that are capital-intensive and take place in rural areas. These bulk commodities are also loaded, shipped, and discharged with minimum human contacts and, despite some disruptions, ports are still functioning. Likewise, unlike SARS, MERS or the avian flu, COVID-19 has not spread to the livestock sector.

Because of higher population densities, and hence greater risk of person-to-person contacts, it is the urban midstream and downstream segments of the food value chains that have the potential to be disrupted by the lockdowns and social distancing measures implemented to suppress the coronavirus. High-value, labor-intensive and perishable food products are the most exposed. For example, the spread of COVID-19 contagion in slaughterhouses and meatpacking facilities in the US is a harbinger of potential disruption in intra-LAC trade flows of meat, poultry, and dairy, which are significant for several countries. Likewise, perishable goods such as specialty fruits, vegetables, flowers, and seafood, are being affected by the grounding of passenger aircrafts often used to move cargo.

However, the largest threat to food security in the region is likely to come from the demand side. The recession that already started in China, the US, and Europe—the largest LAC external trading partners—is expected to deepen to levels not seen in several decades and to spill over to the region through lower demand and commodity prices. Lower real demand and falling prices would translate into lower income, substitution for lower quality in food consumption, and ultimately in poverty and food insecurity. Although, simulations need to be taken with a grain of salt due to the uncertainty that surrounds the dynamics

of the pandemic itself and of the policy-mix implemented in every country to flatten both the epidemiologic and recession curves, modeling predictions paint a stark outlook for LAC.

Real GDP is expected to fall by 5.9%, household consumption by 4.4%, exports by 30.8% and value-added in agriculture by 3.9%. Due to its high dependence on trade and commodity exports, LAC is likely to be one of the hardest hit regions in the world. Under this scenario, extreme poverty in the region is predicted to increase by 12.8%, with impact in rural areas (15.1%) exceeding the average (Laborde *et. al.*, 2020). Ongoing IDB efforts to further refine these scenarios for individual LAC countries will provide a clearer assessment of the risks at hand.

VI - Conclusions and Policy Implications

There is mounting fear that the COVID-19 pandemic repeats the scenario of a food security crisis similar to that experienced in 2007-2008. One particular area of concern is that beggar-thy-neighbor trade policies create volatility in world prices and set in motion prices surges detrimental to food security in net food importing countries. At the time of writing, these concerns seem overstated. However, this does not mean that the economic effects of the pandemic may not be disruptive for the agriculture sector in LAC. Policymakers should remain vigilant that trade policies are part of the solution and not of the problem.

LAC countries and sectors face a wide range of risks related to the impact of the pandemic on agriculture and food global markets. Net importers are exposed to risks on the supply side. Export restrictions implemented by key commercial partners and disruptions in production and logistics chains may affect them directly in the short run, whereas a spiral of rising food prices would distress them indirectly.

At the opposite end of the spectrum, net exporters are exposed to risks on the demand side. Rising costs and obstacles along the trade routes will negatively affect them in the

short run. Whereas in the medium run the impact will depend on the dynamics of global demand and export prices, in the context of the looming global recession.

Even though trade policies are not expected to be the main culprit of any outcome, policymakers should be aware that trade restrictions could lead to adverse consequences for food security. LAC governments have fortunately been vocal about those risks in various global forums (G20, 2020; WTO, 2020). Indeed, trade policies need to be part of the solution.

Keeping trade open is crucial not only at the global level to help stabilize world food markets. Regional cooperation is also critical, as food security in several countries depends a great deal on intra-regional trade. The COVID-19 Regional Contingency Plan recently agreed upon in Central America and similar policy statements put forward by Caribbean authorities acknowledge the need to keep borders open in the two most vulnerable Latin American and Caribbean subregions. Policymakers should ensure that the reality on the ground lives up to these commitments.

But trade policies can do more than doing no harm. As the review of the region's trade patterns have revealed, the high-value segments of food trade are at a great risk of disruption due to bottlenecks in the logistics systems. Keeping the food supply chains gears moving with trade facilitation initiatives is an opportunity, not only to assuage the effects of the crisis in the short run, but also to lay the foundation of a resilient recovery thereafter (Corcuera *et al.*, 2020).

The swift implementation of the following key trade policy priority action items would go a long way to facilitate trade and avert the disruption of food logistics chains:

- **Promote cooperation among customs and border control authorities** to implement a simplified, expedited emergency procedure for clearing critical goods, with a specific focus on food.

- **Consider lifting tariffs**, at least on a temporarily basis, on goods critical for food security, such as basic staples, fodder, and fertilizers.
- **Implement expedited licensing and certification processes** related to sanitary and phytosanitary standards, to avoid that legitimate health and safety regulations unnecessarily hinder trade.
- Use **non-intrusive control mechanisms to fast-track the release of goods**, with specific channels for perishable and cold-sensitive items.
- **Collaborate with reliable, certified importers**, such as the Authorized Economic Operators, and companies that frequently import essential goods to facilitate the import process.
- **Maintain lines of communication with public and private players in the logistics chain** to communicate new processes and jointly adjust them according to the evolution of the emergency.
- **Lay the foundations of coordination border management systems** across the region, in order to emerge from the crisis with a more efficient trade infrastructure.

Looking ahead, policymakers in net food exporting countries can also harness public policy and the export potential of the agriculture sector to improve lives. The trade facilitation measures outlined here would reduce transaction costs along the value chains and boost export competitiveness in world markets. In the short term, the global recession, lower external demand, and falling agriculture prices will require the implementation of a challenging mix of stabilization policies and targeted social support measures to protect the livelihood of household whose income depends on the agricultural sector. Going forward, an overarching strategy built upon technical progress, trade competitiveness, climate friendliness, market diversification, product differentiation, and quality upgrade would be a contribution of the utmost importance not only to the economic development of the region, but also to global food security.

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