REGIONAL WORKSHOP

Strengthening agrifood trade in the region to enhance its role in sustainable development and food security

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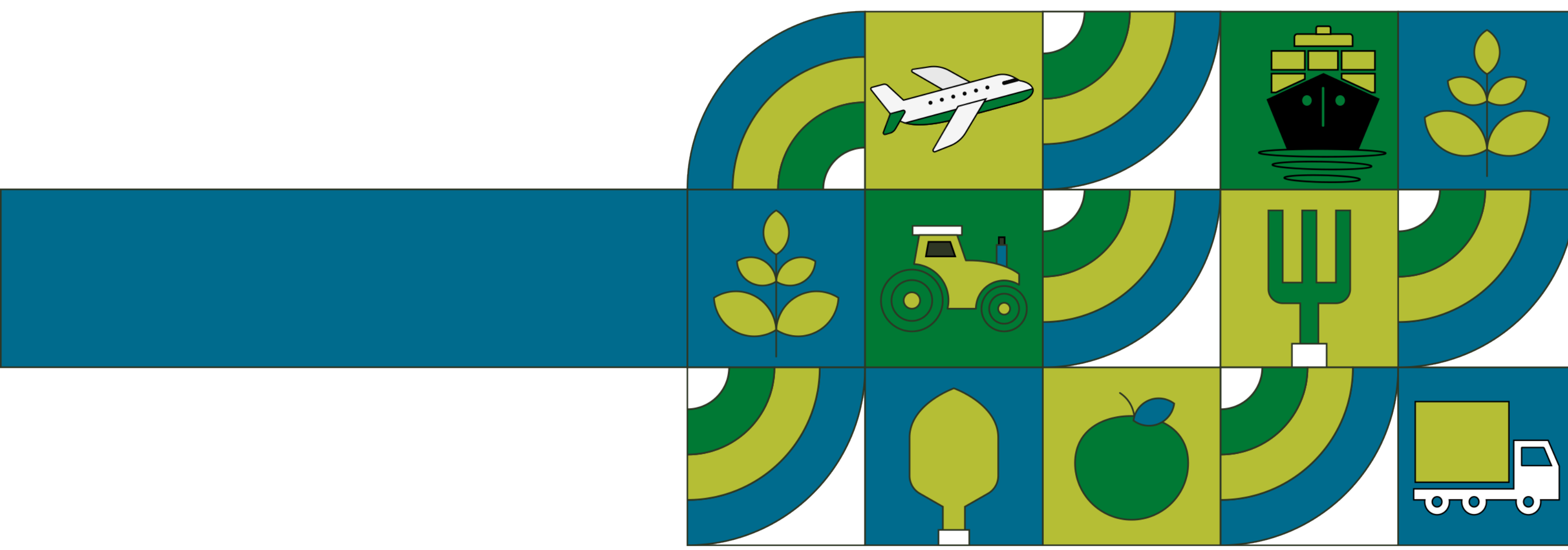

1 This document is based on Piñeiro, M; Abraham, G; Rodríguez, D; Campos, A; Sarquis, A. 2023.

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Introduction

In an increasingly fragmented, complex and conflict-ridden world, the concept of multilateralism is increasingly challenged. At the global level, collective actions by countries and regions with common interests are a particularly important external policy instrument.

These collective actions are more important and urgent at this time when the world is undergoing profound and possibly enduring geopolitical changes, including in the food sector. These changes are also having a direct impact on the political, social and trade relations of the region with the rest of the world.

Multiple and successive crises unfolded during the 2019-2022 period, such as the COVID-19 pandemic, the impact of extreme climate events, as well as the war in Ukraine, which triggered increased hunger and severe food insecurity in Latin America and the Caribbean (LAC), affecting 6.5% and 12.6% of the population, respectively by 2022. At the same time, the events prompted an increase in food prices, which soared to record levels in March 2022 (as measured by the Food Price Index of the Food and Agriculture Organization of the United Nations – FAO), and in inputs (fertilizers and energy). As such, by 2021, as a result of this situation, 22.7% of the population was unable to afford the cost of a healthy diet (FAO, IFAD, UNICEF, WFP and WHO 2023).

This document seeks to assist in evaluating and determining collective actions that could be undertaken by countries in LAC, in conjunction with various international organizations, in order to better position the region and to coordinate actions within the region and at the global level.

I. The new international context: potential impact on international trade

The international context in which trade, including food trade, is taking place, is being transformed by three major trends: a) geopolitical changes that are creating a more complex and competitive world; b) a weakening multilateral system coupled with an upsurge in regionalism and partial agreements; and c) the emergence of new standards affecting food trade. These trends are discussed in greater detail below.

I.1 Geopolitical changes: A more complex and competitive world

Up until the global financial crisis of 2008, international trade was governed primarily by multilateral trade rules that had been agreed on by almost all the countries of the world, within the ambit of the World Trade Organization (WTO). Moreover, international trade was complemented by multiple regional agreements developed in keeping with multilateral rules.

This relatively linear world began to change as a result of several unrelated events. The main one was the growing economic importance and geopolitical positioning of China and the perception that this growth, at least to some extent, stemmed from the country's failure to abide by certain basic multilateral rules.

Other factors affected the multilateral trade system and investments, including the disruptions in global value chains due to the pandemic and the growing influence of environmental concerns on decisions regarding production investments and the global energy matrix.

The war in Ukraine in 2022 was a new and powerful source of disruption that compounded and accelerated the aforementioned trends, thereby threatening global stability and further fragmenting the world into opposing blocs that are beginning to disengage from each other, economically and in terms of trade.

Within this new context of economic and production relations, some business networks and ecosystems will continue to be eminently global, but some links in value chains will be relocated closer to destination markets and as far as possible from geographic zones that are prone to political disruptions. This could affect not only the multiple economic actors that depend on these links, but also end users. Furthermore, this situation has once again brought age-old questions to the fore of discussions. For example, does guaranteed food security depend on international trade and national production, or should countries focus on supporting national production or on opening up and diversifying trade? These processes, guided by geopolitical interests, will negatively impact trade and investment in developing countries. Nonetheless, political alliances and affinity could also be a source of opportunities to enable developing countries to forge partnerships and develop trade agreements in response to new international conditions (Rodríquez *et al.* 2022). In order to capture a greater market share, LAC companies must ensure access to markets; develop trade relations; reduce trade transportation costs and be equipped to expand and sustain production levels (Giordano and Michalczewsky 2022).

I.2 Weakening multilateralism and the growth in regionalism and other partial agreements

Multilateralism, which emerged due to the interdependence of individual states, stemmed from the shared need to manage common global interests. Both the established system of rules, as well as the commitments undertaken to sustain multilateralism and the governance role of the WTO, have been enormously useful for international trade and global economic development, particularly for net food exporting countries. Therefore, the tensions and threats to multilateralism that are arising within the new geopolitical framework should be a source of concern for the region.

The COVID-19 pandemic compounded the underlying crisis that had become apparent in the multilateral system and set the stage for the less than promising scenario that limited the progress made during the WTO Ministerial Conference (MC12) in 2022, where no consensus was reached on agriculture. This revealed the current limitations involved in concluding multilateral agreements on a historically sensitive topic.

This scenario is more conducive to the increased development of agreements that are not negotiated in the spirit of multilateralism. Thus, it is reasonable to expect that the current geopolitical context will promote new interest in regional, plurilateral and bilateral agreements.

This new geopolitical context and the new trend towards trade agreements with more varied objectives and mechanisms, in which trade is defined not solely based on commercial interests, but also on political affinities, creates new opportunities and challenges for countries in the region. Within this international context, the development of strategies to access international markets and collective actions among countries with similar commercial interests acquires greater importance and urgency.

I.3 New standards that affect food trade

The regulatory framework in which food trade occurs is becoming more and more complicated and creating potential difficulties and trade restrictions that are increasingly laborious. It consists of three main elements: a) the **legal framework**, comprising the agreed rules of the multilateral trade system and of regional and bilateral agreements, particularly rules and agreements in relation to sanitary and phytosanitary matters; b) **environmental agreements and decisions;** and c) **private standards**, in relation to food safety, nutritional quality, as well as environmental matters.[2] Examples in the latter two categories have become more numerous in recent years, hand in hand with a growing demand by consumers and some governments, particularly the European Union (EU).

The EU is leading the way in promoting new standards that could possibly become trade restrictions and result in greater economic and social costs to other countries, if there is no scientific basis to justify them and if international cooperation does not assist countries to improve their international standards. Such is the case with the Green Deal and Farm to Fork.

Therefore, the challenge is to establish acceptable rules with which all farmers and exporters can comply. Thus, a balance must be struck between environmental protection, the protection of trade as a central pillar of economic and social development, as well as efforts to combat food insecurity. These needs are being discussed within the WTO, in a plurilateral format, and should be jointly tackled by countries in the region, with a view to defining common positions and undertaking the necessary actions to ensure that compatible decisions are made, in line with the potential and interests of the region.

2 For an analysis of this issue, see Piñeiro, V. and M. Piñeiro, Unraveling Agri-Food System Challenges: A Trade Perspective from the Southern Cone. IFPRI, Washington DC. Forthcoming.

II. International agrifood trade: two key issues for the region

II.1 The multilateral trade system has been the cornerstone of the growth and development of economies during the last twenty-five years, particularly developing countries.

The creation of the WTO in 1995, after a protracted and difficult negotiation process, represented a step forward in efforts to strengthen the legal framework and define the rules that countries should apply in international trade transactions. The creation of the WTO produced several benefits, particularly for the food trade, such as greater market access, market stability, appropriate mechanisms to combat unfair trade, stimulation of investment and innovation, and the promotion of sustainable development.

However, given the aforementioned restructuring and weakening of the multilateral trade system, there is now a vital need to engage in and contribute to processes to strengthen multilateralism and in particular to rebuild the institutional structure that sustains it.

As such, there are series of specific issues that must be evaluated:

- In the WTO, adoption of decisions by consensus has proven to be a complex undertaking, as it has been difficult to devise a positive, agile and flexible approach that enables decisions to be made on a timelier basis. Consequently, there is a need to identify alternatives to consensus decision making.
- The different crises experienced since 2008 have prompted an increase in the protectionist measures applied by some members, for example, through the introduction of unilateral trade restriction measures, increased subsidies, or the use of domestic policy regimes as a justification for not adopting decisions and failing to fully comply with mandatory notifications within the appointed time.
- The war in Ukraine has triggered more intense geopolitical discussions and there is now a growing insistence on regrouping countries according to political affinity or geographic proximity. This *nearshoring* and *friendshoring* phenomena and the ensuing economic *decoupling* are seen as an alternative to globalization and to the rules that underpin multilateralism.
- The strengthening of transparency as a cross-cutting instrument.
- The full functioning of the Dispute Settlement Body (DSB), which is undoubtedly one of the crowning achievements of the agreements that led to the creation of the WTO.
- The search for greater regulatory convergence, given that the proliferation of diverse rules could create significant costs that would impede cross-border trade, even if these rules are introduced for legitimate reasons.

The restructuring of the overall multilateral system, and of agrifood trade, in particular, is essential in order to tackle the current challenges and guarantee fair and sustainable international food trade. New strategies and policies to strengthen the WTO are needed, not only in the organization's traditional areas of priority, but also in the development of new disciplines and forms of negotiation.

Countries in the Americas, particularly in LAC, have benefitted from multilateral trade and the existence of the WTO. Thus, the region should commit to processes to strengthen it. LAC is already making a significant contribution, through its leading role in some of the regular bodies of the WTO and in special negotiation groups; its participation in various initiatives and joint declarations; and its involvement in groups that support the system by undertaking initiatives to create closer ties with less proactive members, to deepen trade reforms. Yet, the countries of the region could undertake more forceful joint actions to assist in restructuring the WTO.

II.2 The growing importance of the region in agrifood trade and its role in global food security

LAC, along with Canada and the United States, has played a central role in agrifood production and exportation. Consequently, over the last 20 years, **agrifood trade surplus** has consistently increased, moving from USD 24.45 billion in the 2000-2002 period to USD 86.19 billion in the 2020-2022 period, in constant 2014-16 USD. Moreover, during the 2020-2022 period, the region exported 42.15% of the agrifood products that it produced, measured in calorie equivalents, and this figure is expected to amount to 42.56% in 2032 (OECD and FAO 2023).

During 2022, the agrifood exports of LAC (19 countries) (IICA 2023)[3] represented close to 18% of the world's agrifood exports. When combined with the exports of the United States and Canada, **the Americas accounted for 31% of the world's agrifood exports during this same period** (IICA 2023)[4]. Bear in mind however, that despite its share of global agrifood exports, the region is home to both net exporting and net importing countries that heavily depend on agrifood trade to ensure their food and nutritional security.

Another fact worth noting is that during the same year, **86.4% of agrifood exports from LAC (19 countries (IICA 2023)[5] were destined primarily for four regions**: 39.8% for Asia (including China and Hong Kong), 22.3% for North America (only Canada and the United States), and roughly 13.6% each for LAC and the EU. A similar trend can be seen in trade from the entire American hemisphere, with slight differences in the percentages destined for each region.

3 IICA with 2023 TDM data. LAC (19 countries): Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

4 IICA with 2023 TDM data. Analysis based on 107 countries with trade information updated to December 2022.

5 IICA with 2023 TDM data. LAC (19 countries): Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

An analysis of the data at the subregional level reveals that **export destinations varied according to subregion**. More than 50% of exports from the Southern subregion (Argentina, Brazil, Chile, Paraguay and Uruguay) were destined for countries in Asia (including China). On the other hand, the primary destination markets for the Northern subregion were North America (Canada and United States) and Asia. In the case of the Andean (Bolivia, Peru, Colombia and Ecuador) and Central subregions, more than 40 % of exports were to North America and the European Union. On the other hand, North America was the main destination market for Caribbean exports, accounting for 48.8 % of the total, with the United States being the main market (IICA 2023).

Despite the gains in global agrifood trade, **intraregional trade continues to be limited.** Although agrifood exports from the entire hemisphere destined for countries within the region were 40.4% of total exports in 2022, when considered by itself, Latin American exports destined for within the region only accounted for 13.6%.

Despite the crisis in recent years due to the COVID-19 pandemic, the war in Ukraine and extreme climate events, in the last three years the region's agrifood exports **have steadily increased and the sector has performed favorably in comparison to overall exports.** This has positioned the agrifood sector as one of the primary engines for the hemisphere's economic recovery. Despite this, there has been a troubling decrease in the competitiveness of LAC in global and more so in regional markets, as demonstrated by its loss of market share (Giordano *et al.* 2022). In fact, during the first three months of 2023, it was observed that agrifood exports from LAC (16 countries) (IICA 2023)[6] decreased by 0.37% vis-à-vis 2022.

This situation provides an opportunity to promote partnerships that will foster the development of regional and global value chains focusing on agrifood production, with a view to ensuring that the countries of the region can increase their presence in existing international markets. In this way, they can diversify their destination markets to capitalize on emerging trade opportunities and to expand their basket of exports. To do so they would ideally need to implement joint actions to upgrade and modernize the multilateral trade system and prevent the introduction of rules, regulations and actions that may potentially restrict agrifood trade. This will enable them to boost agricultural competitiveness, improve the use of existing agreements and make headway in processes to negotiate new trade agreements with the rest of the world, while also consolidating and increasing intraregional trade.

6 IICA with 2023 TDM data. LAC (16 countries): Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and Uruguay.

III. Opportunities to engage in collective actions

The abovementioned situation offers the region an opportunity to capitalize on its strengths, in view of its abundant natural resources and the competitiveness of its products, thanks to its efficiency and environmentally friendly production of several food products. It could therefore increase its presence in international markets, by supplying safe, healthy, nutritious food, produced under environmentally safe conditions, thus ensuring the food security of the region and the world.

In view of the new geopolitical context and the complex situation affecting multilateralism and the WTO and considering the importance of agrifood production and exports for the sustainable development of the region and for regional and global food security, there are some potential areas for collective action among countries in the hemisphere. These actions should seek to strengthen multilateralism and the WTO, while recognizing the new global and regional circumstances and the need to find flexible trade negotiation mechanisms that allow it to take advantage of new opportunities arising from changes in international relations and in agrifood trade in the region. In so doing, it can contribute to its own sustainable development and global food security.

On the basis of this reasoning, there are four possible joint actions that seem to be particularly promising.

III.1 Reforms to strengthen the multilateral trade system

Given the growing fragmentation of economic and trade relations globally, the main mandate of the WTO must be strengthened, with a view to expanding and deepening the regulatory framework for multilateral trade. This will call for reforms in the multilateral trade system to ensure that the possible fragmentation of the global economy into two or more blocs does not lead to economic and trade decoupling and the creation of value chains guided by political rather than economic considerations, which could further weaken the WTO.

Consequently, countries in the region must actively participate in discussions on the functioning of the multilateral trade system, given that that is where the most fundamental issues for future regional trade can be resolved. Some actions to address these issues are: a) to conclude agricultural negotiations in relation to market access, the liberalization of agricultural trade and the reduction of trade distorting domestic support; b) to improve the monitoring and transparency of trade measures; c) to improve the clarity of notifications; and d) to reinforce dispute resolution mechanisms. Additionally, there is a need to incorporate new issues and trade perspectives that expand and strengthen the multilateral regulatory framework, especially in the area of food. Some possible reforms were described in Section II, given the extreme institutional and political complexity and the fact that this requires a more thorough conceptual and operational assessment.

Moreover, inter-institutional governance must be strengthened by different stakeholders in the WTO negotiation process: officials in charge of trade policy in the countries' ministries of Agriculture, Economic Affairs, Trade and Health and agricultural delegates in Geneva. This will foster the creation of forums for discussion and negotiation with other groups of WTO member countries, to increase partnerships and garner support for negotiation proposals. Moreover, international organizations that participate as observers in the WTO could be approached to serve as facilitators in discussions on various issues.

III.2 Preventing the introduction of rules, regulations and actions with the potential to restrict the agrifood trade of countries in the region

Regional cooperation must be promoted through joint actions and negotiating positions that will guarantee that proposed and adopted environmental rules are science-based, are derived from international consensus, are compatible with the WTO, take into account the capacity of countries to abide by them and are not a barrier to trade. There is also a need to provide incentives to encourage the harmonization of standards and certification schemes as a matter of priority, given that the presence of multiple regulations negatively impacts small farmers in developing countries, who do not have sufficient technical and economic capacity to respond to the varying demands.

To address these issues, the technical capacities of ministries of Agriculture should be strengthened and discussion forums created with other relevant stakeholders, such as the ministries of Trade, Economic Affairs and the Environment, to facilitate analysis and discussion of rules and enable effective participation in the initial stages of preparing, approving and prioritizing future rules. These actions should foster the creation of regional positions on strategic issues.

Some issues to stimulate discussion could include: a) determination of the percentage of proposed regulations in the framework of the Technical Barriers to Trade (TBT) Agreement and the Sanitary and Phytosanitary (SPS) Agreement that are notified to the WTO, are linked to environmental protection and that may affect the agrifood sector; b) identification of the number and level of compliance with regional and bilateral agreements that include issues related to the environment and ; c) assessment of the impact of European Union initiatives on agrifood trade in the region, for example the Green Deal and Farm to Fork programs, as well as the impact of an increase in private rules on market access.

Finally, joint actions must be taken to support countries in notifying their measures related to this issue. The notifications made by other member countries must be reviewed and analyzed on an ongoing basis, and if necessary, joint positions must be taken to the WTO to request that measures be scientifically and technically based. On the other hand, if necessary, trade concerns could be elevated to the Dispute Settlement Body of the WTO to institute a formal consultation process. Moreover, the information platforms available in the countries must be strengthened so that they are automatic, simple, and user friendly.

III.3 Use of current existing agreements and signing of new agreements

LAC has signed more than 140 preferential trade agreements (PTA's) (ECLAC *et al.* 2019) over the last two decades and has continued regional trade integration processes. With a view to improving their use, countries of the region could implement complementary agendas to overcome challenges such as, the exclusion of products from preferential tariff treatment, lack of information and knowledge on the benefits of these agreements, absence of effective programs to support exporters, weaknesses with respect to the volume or quality of the export supply, and finally problems involving infrastructure, transportation, logistics and customs procedures, among others.

The countries of the region, particularly net food exporters, must be mindful of possible changes in the trade flow of agrifood products, stemming from changes in global geopolitics. Although market diversification is a major challenge, there is also the matter of "geopolitical bipolarity" that also poses a risk for which exporters must be prepared. In order to take advantage of new business opportunities, LAC must define market strategies to access and position themselves in markets in which they currently do not have a foothold, without disregarding traditional markets, such as the United States and the EU. Particular attention must be paid to possible changes in the trade flows of China and other major net food importing countries, such as Japan and South Korea, which have become new trading partners for some countries in the region.

The enhancement of current and new opportunities to access third markets, through regional or multi-country agreements, will call for greater coordination among ministries of Foreign Affairs, Foreign Trade, Production, Agriculture, Health, the Environment and Social Development. This will facilitate increased agrifood trade within and outside of the region, with a view to strengthening the role of trade in food security. On the other hand, the capacities of ministries of Agriculture, those areas in institutions that interact with ministry teams in trade negotiations and trade promotion, as well as other key private sector stakeholders (producer associations, exporter associations, food producers, customs officials, among others) must be strengthened. This situation offers international organizations and integration mechanisms an opportunity to drive and coordinate processes to build capacities and to establish networks that will create a greater inter-institutional presence, with a view to improving coordination among ministries of Agriculture, Trade, the Environment and other entities (customs, regulators, etc.).

III.4 Consolidating and expanding intraregional trade

Regulatory heterogeneity among countries can create significant costs that impede cross-border trade, even when these regulations have been introduced for legitimate reasons. For exporters, this heterogeneity can incur costs to gather information and knowledge about applicable regulations; specification costs to adjust product or production processes in keeping with different national regulations; and evaluation costs to ensure that products abide by testing, inspection and certification requirements of export markets.

Therefore, the region must work towards regulatory convergence to foster best practices and promote mutual recognition systems, in particular in terms of sanitary and phytosanitary measures and technical barriers, as a means of facilitating the trading of agrifood products.

Moreover, other efforts should be made to facilitate trade through the appropriate management and implementation of commitments assumed by countries under the WTO Trade Facilitation Agreement, with respect to streamlining customs procedures, automation and digitalization of processes and information exchange, among other areas. These measures could reduce the time spent on logistical matters, while improving food distribution and transparency. Not only would this facilitate trade, but would also contribute to reducing costs, increasing availability and access to food, and decreasing food losses due to prolonged delays at the border. This could also streamline food distribution at times when the supply is unstable, such as what happened in recent years, due to the impact of successive events. Additionally, an effort must be made to improve regional logistics and infrastructural services to ensure more expeditious movement of products between countries. Finally, the development of regional value chains must be promoted, as a means of increasing value added and improving the access of small and medium companies and organizations to regional markets.

Hopefully, the abovementioned actions will contribute to the growth and strengthening of intraregional trade, food security, the development of value chains and environmental sustainability, while ensuring greater access by companies and producer organizations to international trade.

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