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# FAO REGIONAL CONFERENCE FOR LATIN AMERICA AND THE CARIBBEAN

## Thirty-sixth Session

19-21 October 2020<sup>1</sup>

### **Agricultural trade of the Latin America and the Caribbean region: status, challenges and opportunities<sup>2</sup>**

#### Executive Summary

This document presents a technical analysis of trends in agri-food trade in Latin America and the Caribbean (LAC). Despite the heterogeneous trade profiles of each subregion, a common feature among many countries is a high dependency on a limited number of exported commodities, and/or a limited number of export destinations and import suppliers. These characteristics present vulnerabilities that exacerbate impacts of shocks in international markets. Exploiting new trade opportunities both within and outside the region can help to decrease such vulnerabilities. The low degree of current trade integration between certain LAC subregions and the high degree of complementarity of their trade structures suggest that there is considerable potential for new regional trade agreements and trade flows. Expanding regional trade integration among specific clusters of countries can thus boost agrifood trade and diversify trade partners.

#### Suggested action by the Regional Conference

The Regional Conference is invited to:

- Call on governments to promote regional integration according to their comparative advantages and in line with multilateral trade provisions, with the objective of strengthening trade flows, reducing vulnerability and trade dependencies, and diversifying import suppliers and export destinations.

<sup>1</sup> Rescheduled from 27-29 April 2020, Managua, Nicaragua.

<sup>2</sup> This text represents a summary of an FAO study developed by the Trade and Markets Division (EST) in collaboration with the Regional Office for Latin America and the Caribbean (RLC). For the purposes of communication and dissemination, all references and bibliographic citations, as well as appendices and other clarifications and references to the study have been removed from the text. These can be found in the full document “*Agricultural Trade of the Latin American and Caribbean (LAC) Region: Issues and Challenges*”, to be published in 2020.

- Reaffirm national commitments to support agrifood production and promote improvements in productivity, supporting the participation of small and medium producers in international agrifood value chains and trade.
- Urge governments to expedite implementation of regional and multilateral trade agreements, with a particular focus on reducing non-tariff barriers to agricultural trade and decreasing transaction costs in international markets.
- Request FAO to prepare regular analyses of regional food markets, support the use of market information tools to promote market transparency, facilitate public-private dialogues to improve governance in international trade, and provide technical assistance to build regional and national institutional capacities on trade.

*Please send any questions about this document to:*

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## I. Agricultural trade of the LAC region – a brief overview

### 1.1 Objective and introduction

1. Agrifood trade in LAC varies by subregion. South American countries are net exporters of agrifood products except for the Bolivarian Republic of Venezuela and Suriname; the Caribbean countries are net importers; and most Mesoamerican countries are agricultural net exporters, except for El Salvador and Panama. This creates different vulnerabilities, dependencies, and priorities regarding international trade. In response to a request from the Latin American and the Caribbean Group (GRULAC), FAO has carried out an analysis of this and the possible implications, given the economic and geopolitical context, including an overview of past trends, current challenges and future opportunities for agricultural trade in the LAC<sup>3</sup> region.

2. This document presents a technical analysis of trends in the agrifood trade of the LAC region. However, it does not discuss in detail the COVID19 pandemic, as the crisis is still unfolding, and an overall technical analysis of its impacts would lack data beyond estimates. For latest projections and policy recommendations on the COVID19 impacts on agrifood systems, FAO recommends its weekly Newsletters and other recent publications.

### 1.2 Overall trade performance

3. Over the past 20 years, LAC has seen a steady expansion of its agricultural trade<sup>4</sup> surplus, rising from USD 26 billion in 2000 to nearly USD 138 billion in 2019 (Figure 1). Total exports rose from USD 45 billion to USD 193 billion up to 2019, while total imports increased from USD 20 billion to USD 55 billion in 2019. However, in volume terms, both exports and imports have levelled off, and in fact registered slight declines since the highs of 2011/2012.

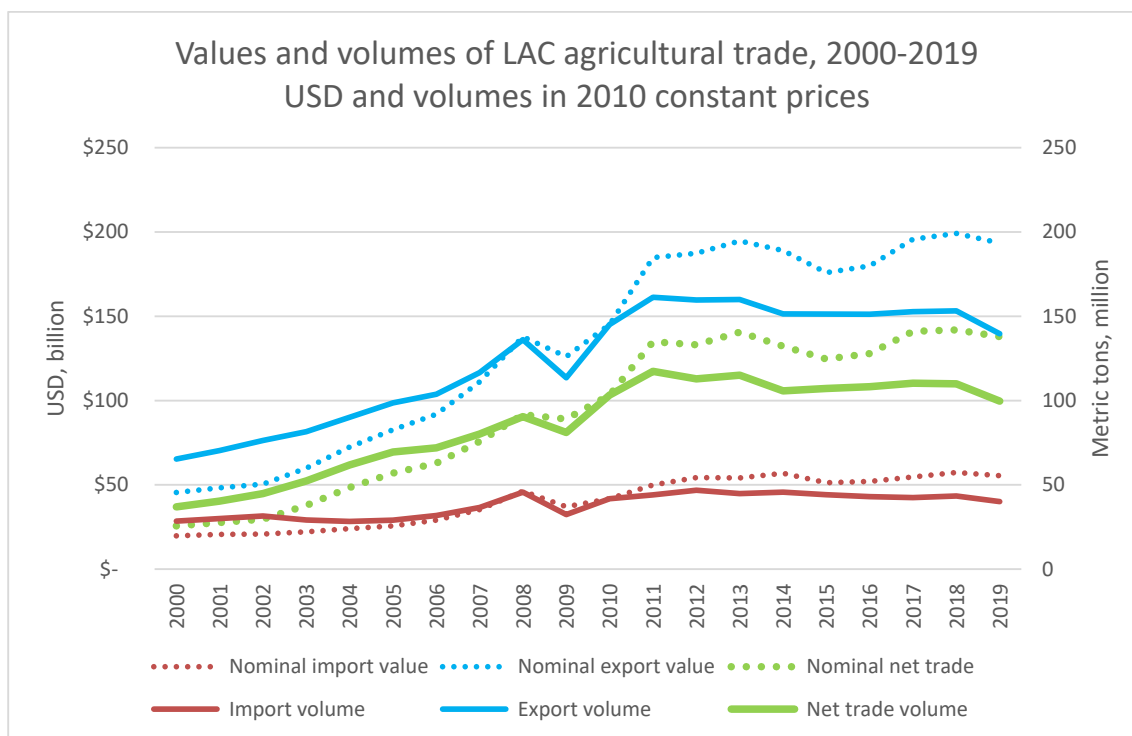
4. The global crisis of 2008-09 provoked the strongest drop in values and volumes of LAC exports and imports, followed by a period of extraordinary recovery during the commodity boom from 2010 to 2012. As such, the performance of agrifood trade in LAC since 2000 until 2019 has followed a boom-bust cycle, in which periods of expansion (2000-2008, 2010-2012) alternate with periods of drops (2008-2009, 2019) or stagnation (2011-2018). Although the large trade surplus points to the importance of the agrifood sector both due to export revenues and employment, it also suggests that this trade experiences volatility from exposure to market shocks, and its exports are not as dynamic.

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<sup>3</sup> Countries included in the analysis of the LAC region are: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela (Bolivarian Republic of). Sub-regional groupings can be seen in the full document *ibid*.

<sup>4</sup> The definition of agricultural trade used throughout this document follows the convention adopted by the World Trade Organization (WTO). All trade data used in this document has been downloaded from the United Nations International Trade Statistics Database (UN Comtrade) website unless otherwise indicated.

**Figure 1: Overall trade performance of LAC as a region**



Source: calculations based on FAOSTAT.

### 1.3 Trade patterns across LAC countries

5. A large part of the region's agricultural trade surplus is generated by a few countries only. The most important net exporter of agricultural goods is Brazil, both in the region and worldwide. Brazil has also seen the fastest growth in net exports, expanding its agricultural trade surplus from USD 10 billion in 2000 to USD 72 billion in 2019. Argentina follows, with an agricultural net surplus of USD 30 billion in 2019, but a much more moderate growth rate over the past 20 years. Other LAC countries with noticeable agricultural trade surpluses include Mexico (USD 10.6 billion), Chile (USD 5.4 billion), Peru (USD 5.1 billion), Ecuador (USD 4.9 billion), Paraguay (USD 4.1 billion), and Uruguay (USD 3.4 billion).

6. Within the Caribbean, the most significant net importers are the Dominican Republic, Jamaica, Barbados, and Trinidad and Tobago. Most Central American countries generate a moderate trade surplus, except for El Salvador and Panama.

### 1.4 Trade patterns across commodities

7. Both crops and livestock products contribute to the trade surplus of LAC countries; meat accounts for 15.8 percent of global exports,<sup>5</sup> oilseeds and oilcakes account for 41.6 percent and 51 percent of global exports;<sup>6</sup> and coffee accounts for 33.3 percent of global exports – of the top ten global coffee exporters, five are from LAC.<sup>7</sup> Fruit and vegetable exports have also contributed to the region's trade surplus, reaching a total of almost USD 33.5 billion in 2017 to 2019.<sup>8</sup>

<sup>5</sup> Brazil accounts for 41.5 percent of beef, 47.7 percent of pork, and 83.9 percent of poultry meat exports.

<sup>6</sup> Including soybean exports and dominated by Brazil and Argentina.

<sup>7</sup> Brazil, Colombia, Honduras, Peru and Guatemala.

<sup>8</sup> Mexico is the most important net exporter of fruits and vegetables (USD 12.8 billion), followed by Chile (USD 5.4 billion), Ecuador (USD 3.0 billion) and Peru (USD 3.0 billion).

8. While LAC has become the most important global exporter of agricultural products, some countries are significant net importers often from within the region. Concerning cereals, for example, the Southern Common Market (Mercosur) is a principal supplier to the region,<sup>9</sup> with many LAC countries sourcing their wheat imports from Argentina.

## II. Agricultural trade in LAC: challenges and opportunities

9. While trade openness offers opportunities for accessing markets beyond national borders, a high dependence on agricultural trade (in total trade), on a limited number of exported commodities, or on a limited number of trade partners can also make countries more vulnerable to shocks in international markets; for instance, increasing their exposure to potentially large declines in export earnings or steep rises in import bills. Shocks may result from abrupt shifts in trade policies, global sanitary (e.g. impacts of COVID-19 pandemic or African swine fever – ASF) and phytosanitary problems (e.g. Tropical Race 4 Banana wilt – TR4), fluctuations in exchange rates or changing climate conditions. For example, Guatemala’s high share of agricultural exports in total exports (52 percent in 2017-19), its strong focus on a few export products (bananas, coffee and sugar account for 42 percent of agricultural exports) and its dependency on a few import markets (55 percent of all agricultural exports are destined for three markets) make the country vulnerable to changes in global agricultural market conditions, or even changes in one large export destination (e.g. the United States of America).

10. An additional layer of vulnerability is produced by the high share of permanent crops in LAC exports, as these reduce flexibility to react to shocks, lower the overall responsiveness of supply and contribute to the characteristic price swings for these commodities. Longer shocks lock farmers into a given output and, in view of the high share of fixed costs in total production costs, draw them into continuing production, even when prices fall below total costs. This can be best illustrated by the coffee production in Colombia.

### 2.1 Dependency on agricultural trade

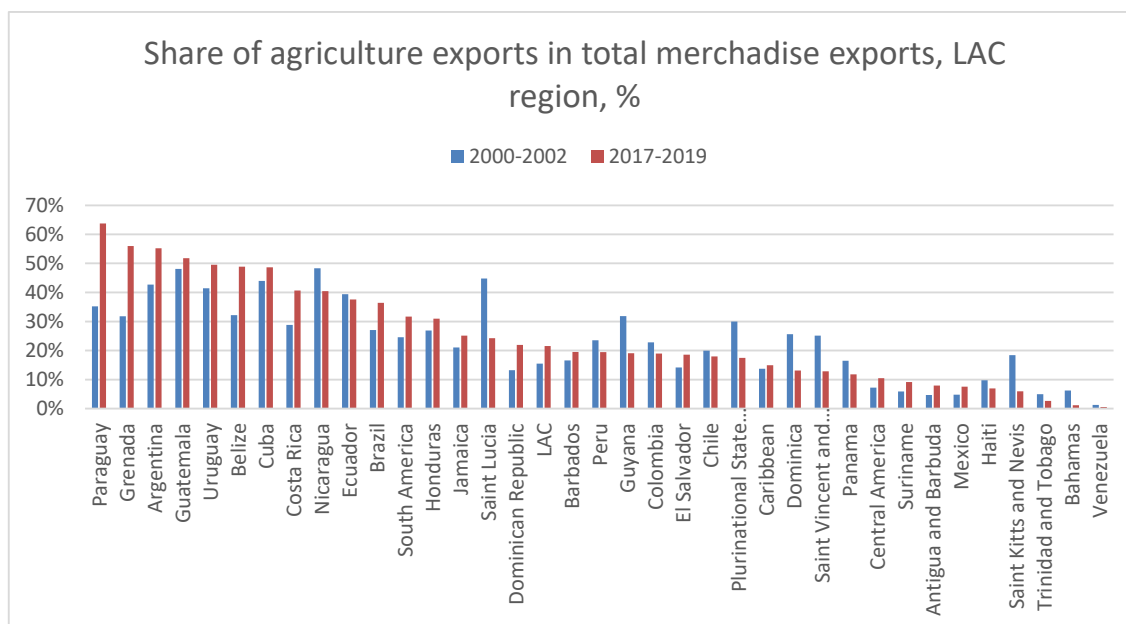
#### A. Exports

11. Many LAC countries are highly dependent on agriculture for their export earnings, with countries in South and Central America particularly exposed. Figure 2 shows the level of exposure of LAC countries during 2000 to 2002 compared with 2017 to 2019, with the highest exposure receiving more than 60 percent of their export earnings from agriculture. As seen in Figure 2, the dependency of the Mercosur countries has been increasing over the last 20 years, and these countries are among those with the highest exposure. The extent of the dependency can be observed in Paraguay, where it reaches 64 percent, or in Uruguay, where the dependency reaches 50 percent. Furthermore, Paraguay’s three main buyers absorb 51 percent of its exports (Table 2). In Uruguay, where 55 percent of its agricultural exports are composed of only three commodities (Table 1), 55 percent is exported to only three countries (Table 2).

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<sup>9</sup> In 2017, Brazil imported more than five million tonnes of wheat from Argentina, accounting for nearly half of Brazil’s domestic wheat consumption.

**Figure 2: Share of agriculture in total merchandise export earnings**



Source: Calculations based on FAOSTAT

12. When a high proportion of export earnings derives from agriculture and from very few agricultural commodities, economies are exposed to shocks that may emanate from specific export destinations or global commodity markets. Such shocks or longer-term slumps can translate directly into macroeconomic shocks, affecting these countries' overall current account balance, their gross domestic product (GDP) growth, inflation rates or even their exchange rates.<sup>10</sup>

13. Trade vulnerabilities also affect the region's labour market and, with it, migration flows. Protracted slumps in prices for labour-intensive products (coffee, fruits, and vegetables) can put downward pressure on wages and labour standards and result in rural-urban and eventually international migration. Potential triggers for such price slumps include market-based factors such as increasingly saturated demand, or pandemic-induced lower demand, but also policy-induced factors such as more restrictive import policies or trade conflicts abroad. Vulnerability, conversely, enables the region to benefit from external idiosyncratic shocks. The United States of America-China trade conflict, for instance, has become a boon to Latin American soybean suppliers able to fill the gap caused by China's restrictive import policies. Nevertheless, despite the benefits of this dispute for LAC exporters, trade dependencies translate into financial and political vulnerabilities, that have negative impacts on the growth and steady development of the countries.

14. The COVID19 pandemic threatens to impact agrifood markets by decreasing global demand for non-staple products, which create important export incomes for many LAC countries.<sup>11</sup> The faltering import demand for milk has shrunk daily exports by 4 percent, the demand for shrimp is expected to fall by 15 percent in 2020, and meat markets are experiencing an 8.6 percent price fall due to COVID-19-related measures and steep decline in import demand.<sup>12</sup> Global demand for such products is not likely to recover in 2020 considering the projections of recession, with economic growth estimated to fall by 5.2 percent globally, and 7.2 percent in LAC, the most affected developing region.<sup>13</sup> Countries, whose exports are concentrated in few products, will be more affected if demand for given products falls and does not recover in protracted recession.

<sup>10</sup> The currencies of these countries are often referred to as "commodity currencies" (Yu-chin & Rogoff, 2003).

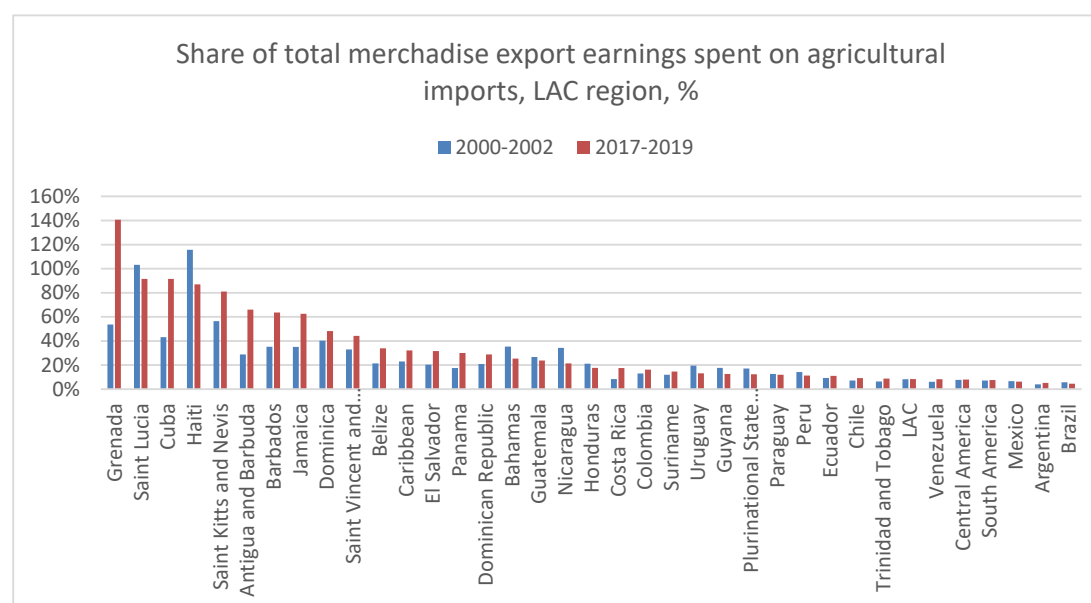
<sup>11</sup> FAO, State of Food Security and Nutrition in the World 2020.

<sup>12</sup> FAO, Food Outlook 2020.

<sup>13</sup> World Bank, 2020.

## B. Imports

**Figure 3. Share of expenditure earnings spent on agricultural imports (without tourism)**



Source: calculations based on FAOSTAT

15. The share of export earnings that LAC countries spend on agricultural imports is relatively small – in 2017 to 2019, it was only 8.4 percent. The shares in subregions are heterogeneous, though. In Mesoamerica, it varies from 6 percent in Mexico to 30 percent in Panama, and while most South American countries spend very small portions of their export earnings on food and agricultural imports, the share in the Caribbean exceeds 32 percent on average and 80 percent for small Caribbean islands (Figure 3).

16. Particularly in the Caribbean, the share of export earnings spent on agrifood imports drops significantly when tourism is taken into consideration. These net importing countries are dependent on foreign earnings from tourism to finance their food imports. The vulnerability of trade dependency has been evidenced during the COVID-19 crisis, where the falls in revenue due to the stalled tourism has endangered food security in these countries.<sup>14</sup>

## 2.2 Commodity dependency and country dependency

17. Many LAC countries are also dependent on rather few agricultural commodities for their total export earnings, which makes them vulnerable to conditions in the international markets. These dependencies have been expressed as concentration ratios over exports and imports of agricultural goods (Table 1). Principally the export concentration ratios of small countries and small island states have reached very high levels, which is often a reflection of the need to reap economies of scale within a limited territorial environment, resulting in a narrower specialisation in production and trade. On the import side, the concentration ratios are smaller, as narrow production profile creates the need to import a large variety of products. Yet, the regional pattern is heterogeneous, as also some large countries have high export concentration ratios. The top three exports products of Brazil, namely soybeans, sugar, and poultry meat, account for half of the country's agricultural exports. Colombia's top three exports, which include coffee and bananas, account for 66 percent of total exports, while bananas represent the lion's share of the agricultural exports of Ecuador and Suriname.

<sup>14</sup> UNCTAD. (2020, April 24). Impact of COVID-19 on tourism in small island developing states. Retrieved from UNCTAD: <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2341>

*Table 1. Commodity dependency: Top 3 concentration ratios (CR3) for exports and imports of agricultural goods (past 20 years over ratio of the top 3 products ratio)*

	2000	2019	2000	2019
Country	Imports		Exports	
Antigua and Barbuda	22%	27%	59%	89%
Argentina	17%	54%	40%	46%
Bahamas	15%	22%	76%	73%
Barbados	12%	17%	66%	91%
Belize	27%	34%	83%	75%
Bolivia (Plurinational State of)	40%	36%	56%	64%
Brazil	36%	26%	39%	48%
Chile	26%	24%	42%	35%
Colombia	29%	32%	72%	66%
Costa Rica	30%	21%	56%	49%
Cuba	38%	41%	88%	93%
Dominica	23%	39%	71%	75%
Dominican Republic	35%	24%	58%	63%
Ecuador	36%	45%	72%	72%
El Salvador	19%	22%	65%	40%
Grenada	25%	38%	84%	80%
Guatemala	26%	22%	61%	42%
Guyana	30%	24%	93%	87%
Haiti	40%	48%	74%	84%
Honduras	24%	23%	70%	63%
Jamaica	17%	19%	46%	45%
Mexico	20%	25%	30%	29%
Nicaragua	18%	22%	54%	45%
Panama	21%	18%	62%	44%
Paraguay	40%	32%	65%	56%
Peru	42%	33%	70%	36%
Saint Kitts and Nevis	22%	29%	90%	90%
Saint Lucia	21%	26%	90%	71%
Saint Vincent and the Grenadines	33%	50%	73%	73%
Suriname	25%	26%	76%	78%
Trinidad and Tobago	20%	17%	42%	63%
Uruguay	31%	39%	44%	55%
Venezuela (Bolivarian Republic of)	25%	37%	24%	71%

Source: calculations based on FAOSTAT



18. Most LAC countries also rely on very few partners, and this concentration is high compared with international levels (Table 2).<sup>15</sup> Most LAC countries receive more than 50 percent of their imports from just three suppliers and many ship more than 50 percent of their exports to just three destinations. Over the last 19 years, there has been heterogeneous development per subregion. Virtually half of the countries increased their dependency on export destinations and import sources, while the other half decreased it slightly. Overall, high dependency can increase countries' vulnerability to shocks, such as those caused by the COVID-19 pandemic, which is negatively affecting global demand for exports and creating logistical bottlenecks threatening food imports.

**Table 2. Country dependency: Top 3 concentration ratios (CR3)<sup>16</sup> for export destinations and import sources**

Country	2000	2019	2000	2019
	Imports		Exports	
Antigua and Barbuda	75%	89%	70%	87%
Argentina	60%	69%	49%	38%
Bahamas	95%	89%	94%	94%
Barbados	65%	81%	55%	90%
Belize	80%	58%	86%	81%
Bolivia (Plurinational State of)	57%	66%	67%	66%
Brazil	69%	65%	60%	54%
Chile	60%	51%	55%	59%
Colombia	53%	59%	76%	72%
Costa Rica	63%	60%	83%	67%
Cuba	71%	61%	78%	78%
Dominica	58%	83%	76%	90%
Dominican Republic	84%	71%	95%	92%
Ecuador	55%	46%	66%	60%
El Salvador	68%	66%	71%	59%
Grenada	72%	77%	68%	84%
Guatemala	61%	65%	65%	55%
Guyana	74%	66%	86%	88%
Haiti	73%	65%	94%	89%
Honduras	73%	64%	83%	76%
Jamaica	69%	74%	77%	89%
Mexico	88%	85%	87%	85%
Nicaragua	64%	54%	75%	67%
Panama	65%	61%	70%	62%
Paraguay	75%	78%	71%	51%
Peru	58%	52%	63%	71%
Saint Kitts and Nevis	81%	89%	86%	84%
Saint Lucia	64%	81%	87%	94%

<sup>15</sup> Detailed concentration data analysis both by product and sources can be found in the complete document: *Agricultural Trade of the Latin American and the Caribbean (LAC) Region: Issues and Challenges*, to be published in 2020.

<sup>16</sup> In addition to CR3 ratios, CR5 and CR7 ratios have been calculated and are available in the complete document *ibid*.

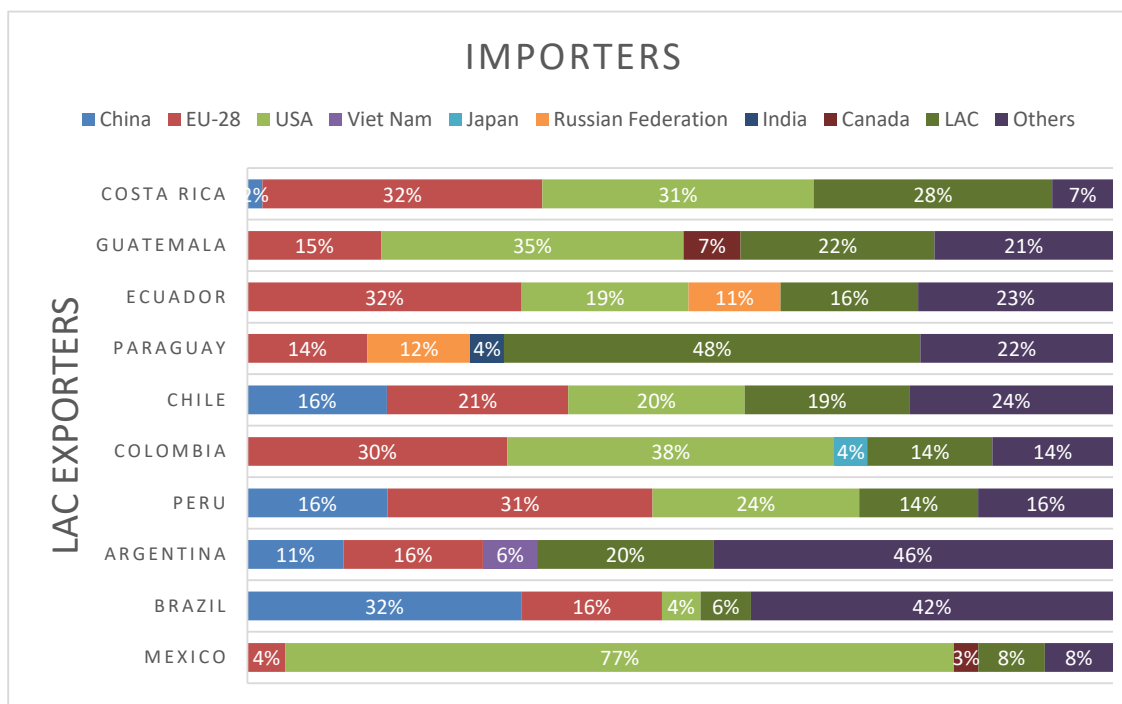
Saint Vincent and the Grenadines	72%	90%	64%	98%
Suriname	82%	74%	90%	95%
Trinidad and Tobago	62%	68%	49%	76%
Uruguay	67%	76%	49%	55%
Venezuela (Bolivarian Republic of)	57%	58%	75%	69%

Source: calculations based on FAOSTAT

### 2.3 Focusing on a few selected export destinations

19. Exports to China, the European Union and the United States of America are an important component of the overall regional trade surplus of LAC (Figure 4). The significance of these three export destinations for LAC agricultural exports has been reinforced by numerous preferential trade arrangements of individual LAC countries or regional LAC groupings.<sup>17</sup> Based on gross trade values, Brazil, Chile, Colombia, Ecuador, Mexico and Peru ship more than half of their agricultural exports to China, the European Union and the United States of America. With the conclusion of negotiations between Mercosur and the European Union, the importance of trade between these regions is expected to increase further in addition to the already existing agreements of the Caribbean Community, Central America and the Andean Community with the European Union.

Figure 4: Main export destinations of LAC exporters



Source: calculations based on FAOSTAT

<sup>17</sup> A list of LAC Regional Trade Agreements (RTAs) and Customs Unions with partners outside the region, as well as a focus on intraregional RTAs, can be seen in the full document *ibid*.

### III. From challenges to opportunities

20. The high dependency on agriculture, individual products, and a limited number of markets outside the region raises dependency challenges that need addressing. In principle, there are options to effectively continue with these high dependencies and options to change them. The former option would include measures such as greater access to risk management tools and the latter option implies diversifying production patterns and trade destinations. One analysis of the latter option is to measure overlap in trade and production structures, using the Total Variation Distance (TVD)<sup>18</sup> as its principal indicator.

21. The analysis of TVD within the entire LAC region provides overview of competition and complementarity. It provides evidence that in the Caribbean, the export structures are similar up to 70 percent, meaning that any additional trade integration within the sub-region would increase competition with negative impacts for producers. The same holds for any additional intra-zone integration in Mercosur, specifically Paraguay and Argentina, with 50 percent overlap in export structures. However, trade integration between different sub-regions offers opportunities; for instance, the export overlap of the Caribbean with countries in Mercosur is relatively low, and trade integration between the two would offer opportunities to exploit complementarities. The same holds for the Caribbean and many Central American countries, albeit with somewhat higher overlap. A comparison between Mercosur and Central American countries suggests higher levels overlap, hovering around 25 percent.

22. Further intraregional trade integration offers significant opportunities without causing major conflicts due to its complementarity, building on the historical heritage of trade agreements and provided that all trade rules and regulations are properly understood and stay in place. FAO offers to support countries in analysing trade patterns and identifying trade opportunities by extending this analysis also to partners abroad to respond to the dependency challenges within the context of the main trade policy issues faced by the region's participation in the multilateral trading system.

### IV. Participation of LAC countries in the multilateral trading system

23. LAC countries have been involved in the multilateral trading system since the establishment of the General Agreement on Trade and Tariff (GATT) in 1947 and contributed to the creation of the World Trade Organization (WTO).

#### 4.1 The Agreement on Agriculture

24. With the establishment of the WTO, the Agreement on Agriculture (AoA) entered into force on 1 January 1995. The AoA constitutes the main legally binding multilateral treaty regulating agricultural trade. The primary objective of the AoA is to discipline agricultural policies that create distortions for production and trade, including the regulation of domestic support and the application of customs duties.<sup>19</sup>

<sup>18</sup> The TVD is frequently used to measure the similarity of complex structures such as trade and production patterns. The export similarity measure  $\delta$  for two given countries  $\pi$  and  $\pi'$  and a maximum of 763 traded agricultural products is given as:  $\delta(\pi, \pi') := 1 - \frac{1}{2} \sum_1^{763} |\pi_i - \pi'_i|$ . It creates a symmetrical matrix of overlap coefficients that captures the existing export overlap of any pair of countries. The TVD can range from zero to unity. At unity, structures perfectly overlap; at zero they are entirely different. High TVD values would signal high similarity and hence high competition between any pair of countries. A trade agreement between two such countries is likely to lead to added competition, lower prices and hence a rise in consumer surplus, but a loss in producer surplus. Conversely, low TVD values suggest a high degree of complementarity and are an indicator that a trade agreement or a customs union could be forged without major disruptions for producers.

<sup>19</sup> FAO, 2017a.

## 4.2 Tariffs

25. In LAC countries, applied tariffs have often been established below the bound rates, leaving a considerable gap between bound and applied levels, usually referred to as “water in tariffs”. This means that LAC countries are more open to trade than their bound tariff rates suggest, but it also means that they could protect their agricultural sectors more, in case of need. It further suggests that many LAC countries could offer additional cuts in bound tariffs in future rounds of trade negotiations without necessarily having the need to effectively open their markets. The applied rate in the region is also low compared with many other WTO members (Table 4), but there are marked differences across the region, such as the below average rate of Chile (6 percent) compared with above average rate of Dominica (21.2 percent).

26. For LAC, the average bound rate is 61.47 percent, while the average most-favoured nation (MFN) applied rate lies at only 14.26 percent. This gap is particularly high for Caribbean countries, where it reaches more than 75 percent on average for the period 2016 to 2018 (92.3 percent bound rate versus a 17.2 percent applied rate). As most Caribbean countries are net importers of agricultural products, lower applied rates allow them to keep their import bills in check.

**Table 3. WTO Bound and MFN Applied Agricultural Tariffs in LAC (Ad-Valorem Equivalent)**

Country	Year of MFN applied tariff	Bound	MFN Applied
<b>Caribbean</b>			
Antigua and Barbuda	2018	104.90	16.30
Bahamas	2018		17.10
Barbados		111.10	
Dominica	2017	112.60	21.20
Dominican Republic	2018	39.90	14.70
Grenada	2016	101.20	18.50
Haiti	2016	21.30	16.80
Jamaica	2016	97.30	19.20
Saint Kitts and Nevis	2018	108.80	13.90
Saint Lucia	2016	114.60	16.80
Saint Vincent and the Grenadines	2018	114.70	17.40
Trinidad and Tobago		88.70	
<b>Average Caribbean</b>		<b>92.28</b>	<b>17.19</b>
<b>Central America</b>			
Belize	2018	101.30	22.80
Costa Rica	2018	43.20	11.60
El Salvador	2018	42.80	11.80
Guatemala	2017	51.40	
Honduras	2018	32.30	10.30
Mexico	2018	45.00	13.90
Nicaragua	2018	43.70	10.60
Panama	2018	27.40	11.90
<b>Average Central America</b>		<b>48.39</b>	<b>13.27</b>
<b>South America</b>			
Argentina	2018	32.40	10.30
Bolivia (Plurinational State of)	2018	40.00	13.10
Brazil	2018	35.40	10.10
Chile	2018	26.10	6.00

Colombia	2018	91.50	14.30
Ecuador	2018	25.90	18.10
Guyana	2018	99.70	21.80
Paraguay	2018	33.10	10.00
Peru	2018	30.90	2.90
Suriname	2018	19.90	18.50
Uruguay	2018	34.10	9.90
Venezuela (Bolivarian Republic of)	2018	55.80	13.00
<b>Average South America</b>		<b>43.73</b>	<b>12.33</b>
<b>Average LAC</b>		<b>61.47</b>	<b>14.26</b>

Source: own calculations based on World Tariff Profiles 2017-2019. Further details on the WTO data can be found at: [https://www.wto.org/english/res\\_e/reser\\_e/tariff\\_profiles\\_e.htm](https://www.wto.org/english/res_e/reser_e/tariff_profiles_e.htm). Product coverage is based on Annex 1 of the WTO Agreement on Agriculture

**Table 4. WTO Bound and MFN Applied Tariffs (Ad-Valorem Equivalent) in selected WTO Members**

Country	Year of MFN applied tariff	Bound	MFN Applied
Australia	2018	3.5	1.2
Canada	2018	15	15.9
China	2018	15.7	15.6
European Union	2018	12.8	12
India	2018	113.1	38.8
Japan	2018	19.3	15.7
South Korea	2018	58	57
Viet Nam	2018	18.80	16.5

Source: Own calculations based on World Tariff Profiles 2018. Further details on the data source can be found at: [https://www.wto.org/english/res\\_e/reser\\_e/tariff\\_profiles\\_e.htm](https://www.wto.org/english/res_e/reser_e/tariff_profiles_e.htm). Product coverage is based on Annex 1 of the Agreement on Agriculture

### 4.3 Domestic support policies

27. The extent to which agricultural producers depend on government support varies widely across LAC. For most countries, the Producer Support Estimate (PSE) as a percentage of gross farm receipts is lower than the Organisation for Economic Co-operation and Development (OECD) average (18 percent). Support is lower than 5 percent in several countries, including Brazil, Chile, Guatemala, Paraguay, and Uruguay. Argentina has a negative percentage, implying that the country's producers are actually taxed by government policies.

28. The main support measures in Latin America are provided through market price support and input subsidies. Mexico is an exception, by providing half of its support through direct payments to farmers. Direct payments are also used in Brazil, Chile, and Paraguay. However, the overall rate of support to producers is low in these countries, revealing the competitiveness of agriculture.<sup>20</sup>

## V. The State of Play in the WTO

29. The WTO's role in ensuring transparency, predictability and openness in the multilateral trading system is widely recognized, yet its core functions have been undermined by the recent growing reluctance of some members to deepen trade talks in the context of the Doha Round, leading to an impasse of WTO negotiating role. The delay in fulfilling the transparency obligations of some

<sup>20</sup> OECD/FAO, 2019.

members to report export subsidies and domestic support in agriculture make it difficult to monitor the compliance with WTO rules.<sup>21</sup> Also, notifications from LAC countries have been late, particularly for domestic support measures. On average, in 2017, only 31 percent of LAC countries reported their subsidies expenditures.

30. Finally, an impasse in the WTO Dispute Settlement Body (DSB) over the appointment of new members of the Appellate Body (AB), with some members blocking the nomination of judges due to the claimed need of reform might weaken the WTO further, endangering its judiciary function.<sup>22</sup> Currently, some countries have agreed to resolve disputes by arbitration or bilaterally and within blocks.

## 5.1 LAC and the use of the Dispute Settlement Mechanism (DSM)

31. The WTO DSM is a central pillar of the multilateral trading system, which ensures and clarifies the rights and obligations of its members.<sup>23</sup> LAC countries have been active users of this system, having participated in 139 (24 percent) cases as complainants, and in 99 (17 percent) as defendants of the total cases.<sup>24</sup>

32. However, regional participation in this system is concentrated in a few countries. Brazil, Mexico, Argentina and Chile occupy the first, second, fourth and ninth positions, respectively, among the ten developing countries that have most frequently resorted to the WTO DSM.<sup>25</sup> In particular, Brazil, Mexico and Argentina have initiated more cases in the WTO than China since its entry in 2001, the world's leading exporter of goods. On the other hand, six countries in the region (Antigua and Barbuda, Cuba, Dominican Republic, El Salvador, Nicaragua and Uruguay) only initiated one case each between 1995 and 2019, and fourteen countries – nine of which are from the Caribbean – have started none.<sup>26</sup> Nonetheless, all LAC countries except Antigua and Barbuda and Haiti have participated as third parties to the disputes, demonstrating a substantial interest in many disputes brought to the WTO.

## VI. Regional integration within the LAC

### 6.1. Regional Trade Agreements

33. Over time, most countries have achieved progress in the pursuit of trade agreements, both within the multilateral framework of the WTO, as well as through Regional Trade Agreements (RTAs).<sup>27</sup> Since the establishment of the WTO, and parallel to multilateral trade negotiations, the number of RTAs notified to the WTO has grown from approximately 50 to the 304 currently in force.<sup>28</sup>

34. One of the main reasons for the progress of RTAs is that by limiting the number of parties involved and focusing on their strategic interests, agreements can be concluded more swiftly and tend to provide deeper trade and economic integration than the WTO multilateral rules, including on sensitive regulatory issues.<sup>29</sup>

<sup>21</sup> European Commission, 2018.

<sup>22</sup> Statement by the United States on Transparency in WTO Dispute Settlement, 2019, Geneva.

<sup>23</sup> WTO, 2004.

<sup>24</sup> The time period of these cases is from 1 January 1995 until 31 July 2019.

<sup>25</sup> Brazil, Mexico, Argentina and Chile together represent 23, 18, 15, and 7 percent respectively of the cases where a country in the region is listed as a complainant and 16, 15, 22 and 13 percent of the total where a country in the region appears as defendant.

<sup>26</sup> Herreros & García-Millán, 2015. WTO, 2019b.

<sup>27</sup> RTAs are “trade agreements of a mutually preferential nature”. They include bilateral, regional or interregional free trade agreements (FTAs), economic unions, customs union, and common markets (WTO, 2006).

<sup>28</sup> WTO, 2020c.

<sup>29</sup> UNCTAD, 2014a.

## 6.2. Agricultural trade liberalization through RTAs

35. Agricultural trade, including intra-regional trade, is a potential source of efficiency and growth.<sup>30</sup> It can play a key role in achieving food security and nutrition and also helping countries to adapt to climate-change related supply disruptions by facilitating the movement of food from surplus to deficit regions, thereby stabilizing markets and food prices.<sup>31</sup>

36. Additionally, turning to new markets, including intra-regional markets, means diversification of exports and trade partners, which can reduce some of the trade dependencies and vulnerabilities described earlier. RTAs can lead to such trade creation through market liberalization among parties, and they can also be more supportive of the needs of vulnerable groups, e.g. by fostering productivity and incomes of smallholders and becoming a driving force for poverty reduction, pro-poor employment, and structural transformation. This is particularly relevant for those LAC countries where the agriculture sector is the backbone of the economy.

37. LAC has made progress in liberalizing intraregional trade, thus boosting its trade flows.<sup>32</sup> In parallel with a number of bilateral trade agreements, LAC countries created four customs unions: (i) Mercosur; (ii) the Caribbean Community (CARICOM); (iii) the Central American Common Market (CACM); and (iv) the Andean Community (CAN).<sup>33</sup> Within these groups, the tariff liberalization processes in terms of food trade are significant.<sup>34</sup> Some efforts have also been made in the context of non-tariff measures. In this regard, there are strong institutional frameworks either within the customs unions, as in the case of CARICOM, or within other sub-regional bodies, such as the Regional International Organization for Plant Protection and Animal Health (RIOPPAH).

38. However, only few trade and integration agreements have intraregional scope.<sup>35</sup> These include the Andean Community, the Pacific Alliance, the Caribbean Community, Central American Common Market, Mercosur and the Latin American Integration Association (ALADI).<sup>36</sup> Intraregional trade liberalization in the LAC region and its subregions is still very limited, as depicted by Figure 5 below.

39. On the contrary, there is no RTA in place between CARICOM and Mexico, or between MERCOSUR and the CACM, or CARICOM, while, in the case of ALADI, the coverage and depth of preferential access vary across countries.

40. These are examples of the “spaghetti-bowl” phenomenon in the region, whereby various rules, tariffs and institutional arrangements apply at the same time affecting trade preferences and flows.<sup>37</sup> Such highly fragmented framework with overlapping regimes can add to a lack of transparency and uncertainty. This could be of concern for less developed LAC countries, especially those in which exports are concentrated in a narrow range of products to a limited number of trading partners. It also poses the risk of marginalizing more vulnerable countries not participating in major RTAs.

41. Based on the analysis of export similarities and complementarities (presented in section III above), there may be opportunities to reduce dependence on a narrow set of markets or import origins by increasing integration between different sub-regional communities within LAC, allowing for exploiting complementarities without increasing competition among them. Moreover, while this section has focused primarily on intra-regional trade, there may also be similar clusters of countries abroad, with which individual LAC countries or sub-regional blocs may benefit from a greater integration with relatively low levels of competition.

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<sup>30</sup> Bown, Lederman, Pienknagura, & Robertson, 2017.

<sup>31</sup> FAO. 2018. The State of Agricultural Commodity Markets 2018. Agricultural trade, climate change and food security. Rome.

<sup>32</sup> UNCTAD, 2014b.

<sup>33</sup> IICA, 2019.

<sup>34</sup> CELAC, 2016.

<sup>35</sup> CELAC, 2016.

<sup>36</sup> ALADI is not an RTA as such, but rather an intergovernmental organization that encourages economic integration in the region with the final goal of establishing a Latin American common market (ALADI, 2019)

<sup>37</sup> FAO, 2017b.





43. At the international level, the importance of the WTO in ensuring functioning international markets has long and widely been recognized. It is particularly important for export-oriented LAC countries who rely on the functioning of global markets in selling their produce. Less prominence for, or even a deterioration of the WTO framework will inevitably heighten the economic vulnerabilities of many agricultural exporters of the LAC region. With the near standstill in the WTO trade negotiation process, countries around the globe have shifted their liberalization focus from multilateral approaches to regional and bilateral ones. The COVID-19 pandemic has shown the importance of intraregional trade, particularly for some specific products like perishable foods. LAC countries are likely to continue this trend by promoting intraregional trade integration and concluding new RTAs. Such a shift from multilateral to regional trade integration offers new opportunities, but also poses new challenges especially for larger exporters already integrated in the global agricultural markets.

44. As evidenced above, intra-regional trade in LAC can offer benefits that can be exploited also by large international exporters. Further regional integration could help boost intra-regional trade. Ideally, it would be more strategically designed and coordinated to avoid a further proliferation of the “spaghetti-bowl” phenomenon. While the dominant players may have greater capacity and flexibility to master such agreements, smaller countries would be more exposed to the effects of trade diversion and distortion.<sup>38</sup>

45. A process of promoting deeper regional integration within LAC presents promising potential for effective agri-food market expansion and greater efficiency in trade relations.<sup>39</sup> It would also be an opportunity for greater inclusion of small and medium enterprises (SME) or producers, such as family farmers, rural women, and others in disadvantaged trade positions. With a more integrated regional framework, LAC may even further strengthen the region’s role in international negotiation forums.<sup>40</sup>

## 7.1 FAO’s support to Members

46. FAO’s support aims to promote transparent food and agricultural markets and trade for global food security, by: i) providing information and analysis; ii) supporting capacity development; and iii) facilitating the planning and organization of dialogue events. FAO’s main functions in this important area are as follows:

- (a) Promote market transparency through the preparation of analyses and studies on global and regional food and agricultural markets and publication of regular report (Food Outlook, Crops Prospects and Food Situation, OECD-FAO Agricultural Outlook, etc.).
- (b) Assemble, maintain, analyse and distribute data and information on food and agricultural markets, including on production, utilization, trade and prices, through institutional platforms like the Agricultural Market Information System (AMIS) and the Global Information and Early Warning System (GIEWS).
- (c) Promote public and private dialogue focused on improving governance in international agricultural markets and trade.
- (d) Provide technical assistance in normative issues of international trade (Secretariat and Commissions for plant and animal protection, Food Quality and Safety, Antimicrobial Resistance (AMR), international standards (Codex Alimentarius)).
- (e) Support the development of institutional capacities to reduce commercial dependency and vulnerability, including through the formation of producers’ organizations and cooperatives, improvement of competitiveness and productivity, and implementation of strategies to reduce transaction costs in international markets.

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<sup>38</sup> IICA, 2018; FAO, 2017b.

<sup>39</sup> CELAC, 2016,

<sup>40</sup> IICA, 2018.

- (f) Advise on strategies for combining existing commercial structures with trade policy needs (and their link to agriculture).
- (g) Provide capacity building for family farmers and rural SMEs in international trade.
- (h) Promote trade initiatives to bolster family farmers' and rural SMEs' market access and internationalization.