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of the United Nations

Agricultural trade in the Global South

An overview of trends in performance,
vulnerabilities, and policy frameworks



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Acronyms and abbreviations

AfCFTA	African Continental Free Trade Area
AMU	Arab Maghreb Union
AoA	Agreement on Agriculture
CACM	Central American Common Market
CAN	Andean Community
CARICOM	Caribbean Community
CEMAC	Economic and Monetary Community of Central Africa
CEN-SAD	Community of Sahel-Saharan States
COMESA	Common Market for Eastern and Southern Africa
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DDA	Doha Development Agenda
DSB	Dispute Settlement Body
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
FTA	Free Trade Agreement
GATT	General Agreement on Trade and Tariffs
GDP	gross domestic product
IGAD	Intergovernmental Authority on Development
LAC	Latin America and the Caribbean
LDCs	least developed countries
LLDCs	Landlocked Developing Countries
MERCOSUR	Southern Common Market
NTM	Non-Tariff Measures
OIRSA	Regional Organization for Plant and Animal Health
RCEP	Regional Comprehensive Economic Partnership
REC	Regional Economic Communities
RTA	Regional Trade Agreement
RTB	Relative Trade Balance
SACU	South African Customs Union
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SDT	Special and Differential Treatment
SIDS	Small Island Developing States
SSC	South-South Cooperation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

Executive summary

The importance of South countries¹ in global agrifood markets and trade has been increasing over the last two decades, with growth in their participation, as both exporters and importers, having outpaced that of North countries. South countries, as a group, are net exporters of fruits, vegetables, fats and oils, and tropical products such as coffee, tea, cocoa and sugar, and net importers of key food commodities such as cereals, meat and dairy products. These patterns reflect structural changes along the development path. Agricultural productivity growth has fuelled expansion in the production of some products, while population growth and urbanization, rapid economic growth and increasing per capita incomes have contributed to growing demand for diverse food products.

There are significant differences in trade patterns across South country regions, which in this report were defined according to the United Nations Development Programme's (UNDP) classification of Developing Countries. Arab States are significant net importers of food and agricultural products, followed by South Asia and East Asia and Pacific. By contrast, the Latin America and Caribbean region is a significant and growing net exporter, followed by Europe and Central Asia, and sub-Saharan Africa. Growing levels of South-South trade – both within and between the six South country regions – has been a key feature of the growth in both the agricultural exports and imports of South countries over the last two decades. By contrast, the shares of total agricultural exports and imports traded within North countries, although higher than those for South countries, have declined over the same period.

On aggregate across South countries, those with higher levels of agricultural trade – both exports and imports – tend to have lower levels of dependency on a few trading partners, indicating improved resilience to shocks affecting export markets and sources of imports. Although product dependency also tends to decline with increasing levels of trade, on aggregate, in most South country regions, the concentration of agricultural exports in the top three products has increased over the last two decades. This can be particularly problematic in countries with high dependence on agricultural exports in total merchandise exports, which is the case of many least developed countries (LDCs) and Small Island Developing States (SIDS). This situation can make these countries highly exposed to demand and price shocks that affect these products, often translating into broader macroeconomic challenges.

In this context, and with an interest in shaping the rules of the global trading system, South countries have actively participated in multilateral trade negotiations. Many South countries were already Members of the World Trade Organization (WTO) when it was established in 1995. They have taken an active role in the WTO's Doha Round of negotiations, participating through negotiating coalitions based on their

¹ In this report, for reasons of simplicity, the term “South countries” refers to the Global South. See Annex A for a methodological note on definitions and classification of countries and territories by region. All other countries and territories not classified within the UNDP developing regions (54 in total), are classified as “North countries” in this study.

trade-related agricultural interests. In parallel with multilateral agreements and negotiations, both South and North countries are increasingly participating in regional trade agreements (RTAs), including mega RTAs. These agreements tend to incorporate clauses for deeper economic integration that go beyond trade, reflecting the growing recognition and relevance of the role of trade in advancing countries' development objectives. While RTAs can promote and create greater levels of trade, they can also lead to trade diversion and preference erosion and contribute to a "spaghetti bowl" phenomenon in which regulatory and institutional arrangements governing different RTAs apply at the same time.

For countries to realize the full benefits of increased market participation for agricultural development and economic growth, participation in RTAs should complement multilateral trade agreements. Moreover, trade policies should be part of a comprehensive package of policy measures that aim to promote sustainable production and consumption, including social protection systems that strengthen access to healthy diets for the most vulnerable populations. With this backdrop, South–South and Triangular Cooperation can be a powerful instrument for the mutual exchange of experiences and solutions that promote agricultural development, food security and better nutrition, rural development and poverty reduction.

1 Introduction

South–South Cooperation (SSC) is increasingly recognized as an effective instrument for catalyzing economic development by fostering the exchange of innovation and good practices, and expanding market opportunities across countries with a similar level of development and shared development objectives, such as those reflected in the Sustainable Development Goals (SDGs). From the 1955 Bandung Conference to the 1978 United Nations Conference on Technical Cooperation among Developing Countries (Buenos Aires), and several high-level forums thereafter, including the Nairobi United Nations meeting on SSC in 2009, there has been growing momentum for promoting economic cooperation among countries in the Global South (FAO, 2016a).

Key to this economic cooperation are trade and investment relationships among South countries. Aiming to inform discussions of SSC on agricultural development, this study provides an empirical overview of the patterns of agricultural trade among South countries, their exposure to shocks in international markets, and the trade policy frameworks and agreements that underlie these trends.

It is organized as follows: Chapter 2 presents the overall agricultural trade performance of South countries (compared to North countries), and investigates whether they have developed a trade deficit or surplus, and which commodities have been traded the most. This chapter also explores trends in intra- and inter-regional trade, both at the level of South and North countries, as well as at the level of sub-regional country groups within South countries. Chapter 3 focuses on the challenges posed by high exposure to trade, describing these challenges at three levels of dependencies: dependency of a given country on agricultural trade; dependency on individual agricultural commodities; and dependency on individual trade partners. Chapter 4 discusses the accession history of South countries to the WTO and explores the levels of trade openness implemented through an assessment of their applied and bound agricultural tariffs. The chapter also explores the negotiating positions of South countries at the WTO, the level of fulfillment of their WTO transparency obligations, and the extent to which South countries have made use of the dispute settlement mechanism provided by the WTO. Finally, Chapter 5 analyses major trends related to the participation of South countries in RTAs and the opportunities and challenges that can arise from this.

2 Overview of agricultural trade in South countries

Key Messages:

- The importance of South countries in global agrifood markets and trade has been increasing over the last two decades, with growth in their participation, as both exporters and importers, outpacing that of North countries.
 - Growing levels of South-South trade – both within and between the six South country regions – have been a key feature of the growth in both agricultural exports and imports of South countries over the last two decades.
 - There are significant differences in agrifood trade patterns across South country regions. Arab States are significant net importers, followed by South Asia and East Asia and Pacific. By contrast, Latin America and the Caribbean is a significant and growing net exporter, followed by Europe and Central Asia, and sub-Saharan Africa.
 - South countries, as a group, are net exporters of primary agricultural products, such as coffee, tea, cocoa and sugar, as well as fruits, vegetables, fats and oils, and net importers of important food commodities such as cereals, meat and dairy products, as well as processed products, such as preparations of cereals and milling industry products.
-

2.1 Overall agricultural trade performance

North countries account for greater levels of both exports and imports of agricultural products than South countries. On average during the 2016–2018 period, the agricultural exports of North countries totalled USD 744 billion, and imports totalled USD 736 billion (in constant 2010 prices), while South countries' agricultural exports totalled USD 470 billion, and imports totalled USD 459 billion. Over the past two decades, however, there has been a steady expansion in the participation of South countries in agricultural trade, with growth in both their agricultural exports and imports outpacing that of North countries. South countries' agricultural exports and imports, on average in the 2016–2018 period and in real terms (at 2010 prices), were approximately 2.1 and 2.4 times their respective average 2000–2002 values, while North countries' exports and imports grew by approximately 1.4 times during the same period (Figure 1).¹

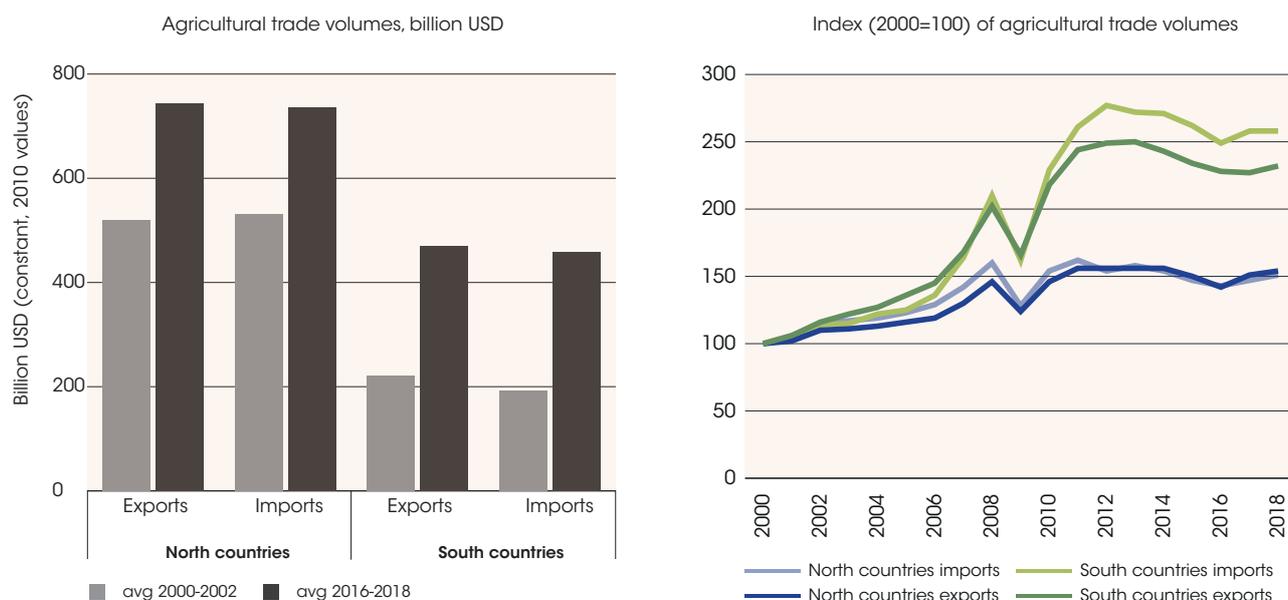
¹ Total agricultural trade flows at time t at constant price (T_t^{2010}) are computed as:

$$T_t^{2010} = \sum_{i=1}^n UV_{i,2010} \times Q_{i,t}$$

whereby T stands for total agricultural exports or imports, i for any agricultural commodity at the HS6 level, n the total number of commodities included, t for any year from 2000 to 2018 and UV for the unit value of a commodity i . The year 2010 serves as the pivot to fix the export unit values for all commodities. The analysis was undertaken at the HS4 level to ensure a consistent set of commodities across different HS vintages. This amounted to 219 individual products.

Moreover, on average during 2016–2018, South countries accounted for approximately 38 percent of both global agricultural exports and imports, up from 30 percent of exports and 27 percent of imports in 2000–2002. This increasing weight of South countries in world agricultural trade is in line with the overall trend in total merchandise trade, for which the rate of growth of South countries has been much higher than that of North countries, fuelled, among other factors, by the opening of many developing economies (WTO, 2014).

Figure 1. Trends in agricultural exports and imports of South and North countries (constant prices, 2010 values).



Source: FAO calculations based on UN Comtrade.

To compare the overall trade performance of country groups, a measure of “relative trade balance” (RTB) is hereinafter used. This represents the normalized net exports of the country group.²

Overall, South countries’ positive trade balance in all products, including agrifood products, has declined steadily over the last two decades, and especially after the 2007–2008 global food price crisis (Figure 2). Several factors underlie this trend, such as significant growth in gross domestic product (GDP), population size and rates of urbanization in many countries, which have contributed to increasing demand for diversified products, while supply side constraints have limited the potential for domestic production to meet this growing demand (Box 1).

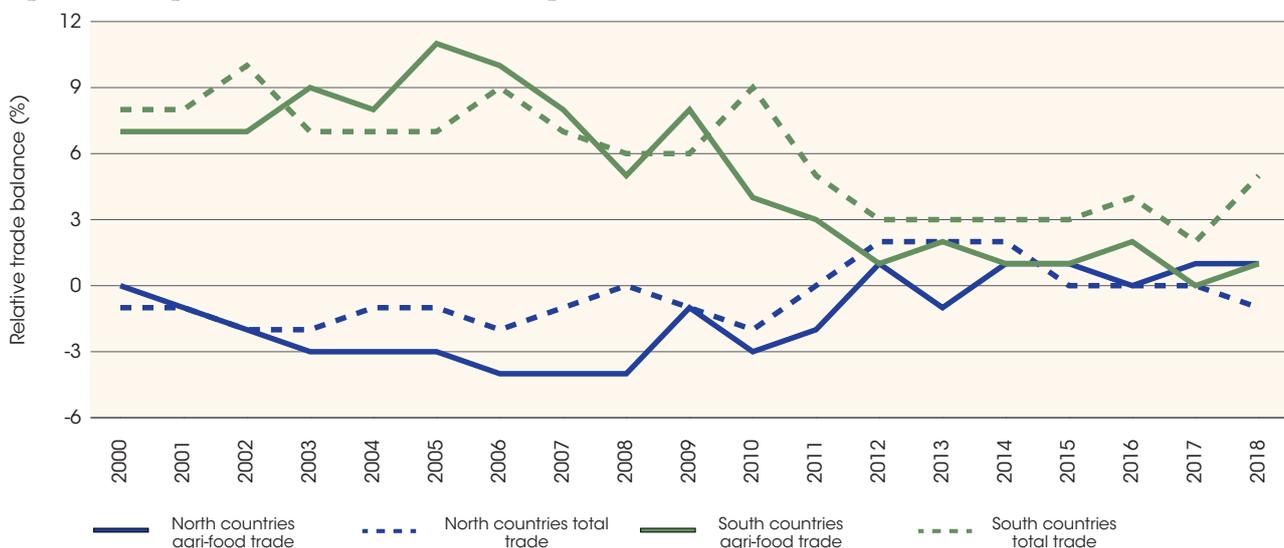
Net imported products

South countries as a group are net importers of food commodities, such as dairy products, cereals, and meat, as well as fibres such as vegetable textile fibres, wool and cotton (Figure 5). For some of the food commodities, such as dairy, cereals, and products of the milling industry, the trade deficit has declined since 2000–2002, while for several other products, such as meat and oilseeds, the deficit has increased. On average during

² Relative trade balance (RTB) is defined as: $RTB = (X-M) * 100 / (X+M)$, where X and M are total exports and imports, respectively, of the country group, including intra-regional trade. Accordingly, the RTB can vary from -100 (exports are zero) to +100 (imports are zero).

2016–2018, South countries' imports accounted for over 65 percent of world imports of cereals and oilseeds, and over 30 percent of meat and dairy imports (Figure 6). South countries also account for substantial shares of world imports of products for which they are net exporters. For example, they account for over 50 percent of the world's imports of oils and fats and sugar, and over 30 percent of fruits and vegetables (not shown). China is a key driver of South countries agricultural imports. During 2016–2018, China accounted for 62 percent of South countries' total imports of oilseeds, 26 percent of meat, 16 percent of dairy, 16 percent of fats and oils, and 8 percent of cereals. Mexico is a major importer as well, accounting for 10 percent of South countries' total imports of meat, 6 percent of dairy, 6 percent of cereals and 5 percent of oilseeds. India accounts for a significant share of South countries' imports of fats and oils (21 percent), while Arab countries are important drivers of South countries' imports of cereals (Egypt: 8 percent, Saudi Arabia: 5 percent), meat (Saudi Arabia: 5 percent, Egypt: 4 percent and United Arab Emirates: 4 percent) and dairy (Saudi Arabia: 6 percent and United Arab Emirates: 6 percent).

Figure 2. Relative trade balance (%) of South and North countries, agriculture, and total trade (using export and import volumes in constant 2010 prices).



Source: FAO calculations based on UN Comtrade.

Box 1. Demand and supply dynamics underlying the agricultural trade performance of South countries

Dietary changes have contributed notably to an increase in the demand for food imports in many emerging economies (FAO, 2017a). The demand for meat, dairy products and fruits for instance, has grown significantly in countries like China, which have experienced substantial economic growth, but also in low-income countries in Africa and Asia. Even in areas where cereals are still the main staple, the share of household expenditure on non-cereals (such as vegetable oils and animal fats) has increased, driven by several factors, such as easier access, improved transportation and changes in food preferences (Reardon *et al.*, 2014; FAO, 2017a). Supply side factors have influenced the extent to which this growing demand can be met by domestic production. Agricultural productivity has been growing steadily in several emerging economies, e.g., agricultural labour productivity more than doubled between 2000 and 2015 in Brazil, and similar increases occurred in China, India and Indonesia, fostering production, exports and increasing participation in global agricultural trade (FAO, 2018a). However, this is not the case for many least developed countries, particularly

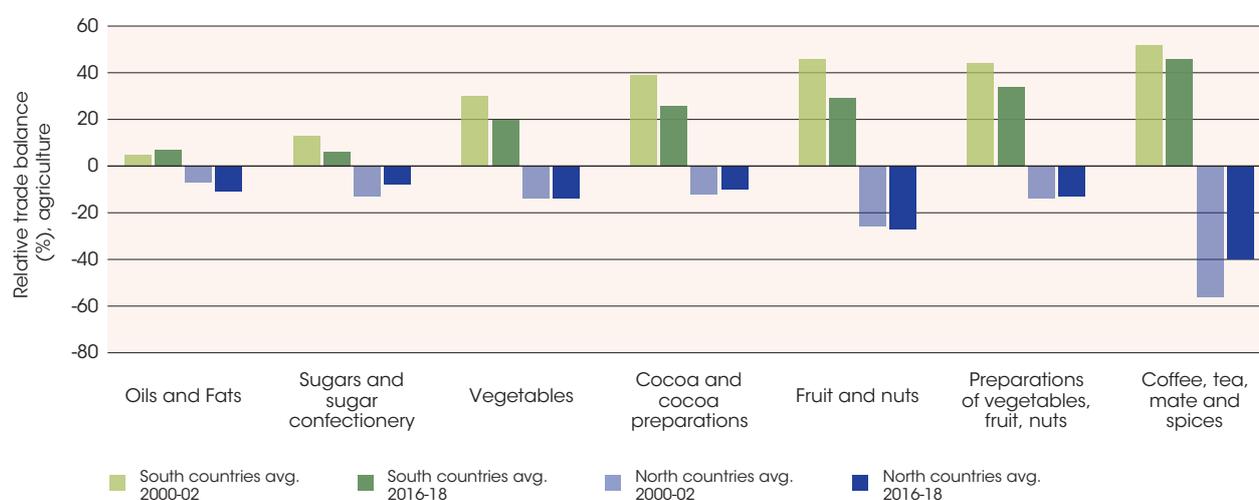
in sub-Saharan Africa, resulting in an increase in import demand and the worsening of their agricultural trade balance. Climate change also affects countries unevenly (FAO, 2018a). While tropical areas incur production losses because of rising temperatures, agricultural production in temperate regions increases, contributing to a gradual shift in the geographic location of agricultural production and, hence, of trade flows.

2.2 Trade patterns across commodities

Net exported products

The agricultural trade specialization of South countries differs significantly from that of North countries (Figure 3).³ South countries, as a whole, are net exporters of primary agricultural products, such as fruit, vegetables, fats and oils and tropical products (coffee, tea, cocoa and sugar) (Figure 3), whereas they are net importers of processed products such as preparations of cereals, as well as milling industry products. Except for oils and fats, South countries' positive trade balance in all these commodities has declined since the early 2000s. Nevertheless, on average during 2016–2018, South countries still made up a significant proportion of world exports in many of these products, accounting for 68 percent of global exports of coffee, tea, mate and spices, 62 percent of oils and fats, 61 percent of sugar, and 56 percent of fruits and nuts (Figure 4). South countries also account for substantial shares of world exports of products for which they are net importers, for example, accounting for 47 percent of world exports of oilseeds, 40 percent of cereals, and 44 percent of cotton (not shown). A few countries tend to dominate South countries' exports in these sectors. China (9 percent), Chile (9 percent) and Mexico (8 percent) account for about 26 percent of all South countries' exports of fruits, and more than half of vegetable exports are from China (32 percent) and Mexico (20 percent). Malaysia (35 percent) and Indonesia (22 percent) are major exporters of oils and fats; Brazil and Viet Nam account for one third of coffee and tea exports; Côte d'Ivoire (28 percent) and Ghana (16 percent) play an important role in cocoa exports; and Brazil is responsible for about 40 percent of South countries' sugar exports.

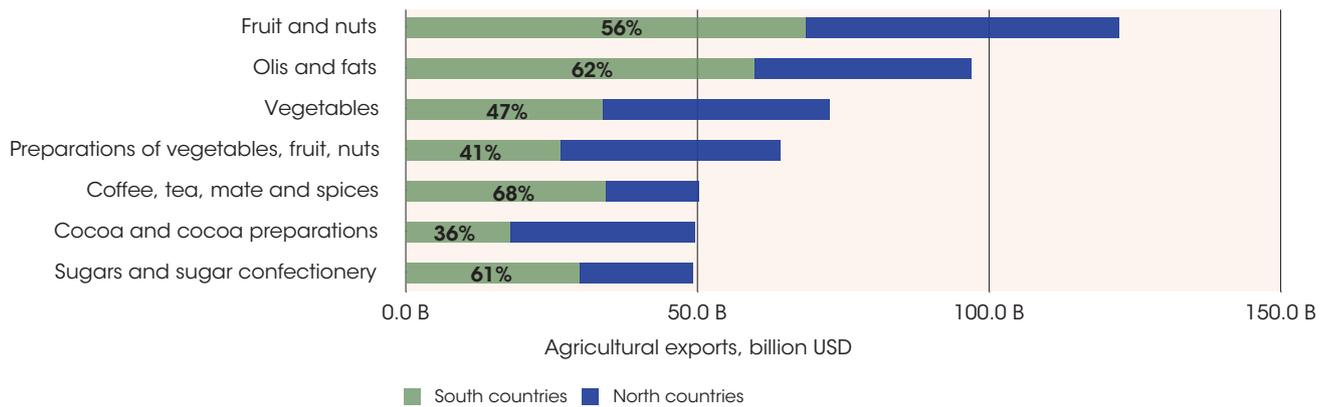
Figure 3. Agricultural commodities for which South countries have a positive relative trade balance (%)



Source: FAO calculations based on UN Comtrade.

³ The groups of commodities here reported correspond to the HS-2 digit level classification.

Figure 4. World agricultural exports, billion USD, average 2016–2018, and share comprised by South countries.

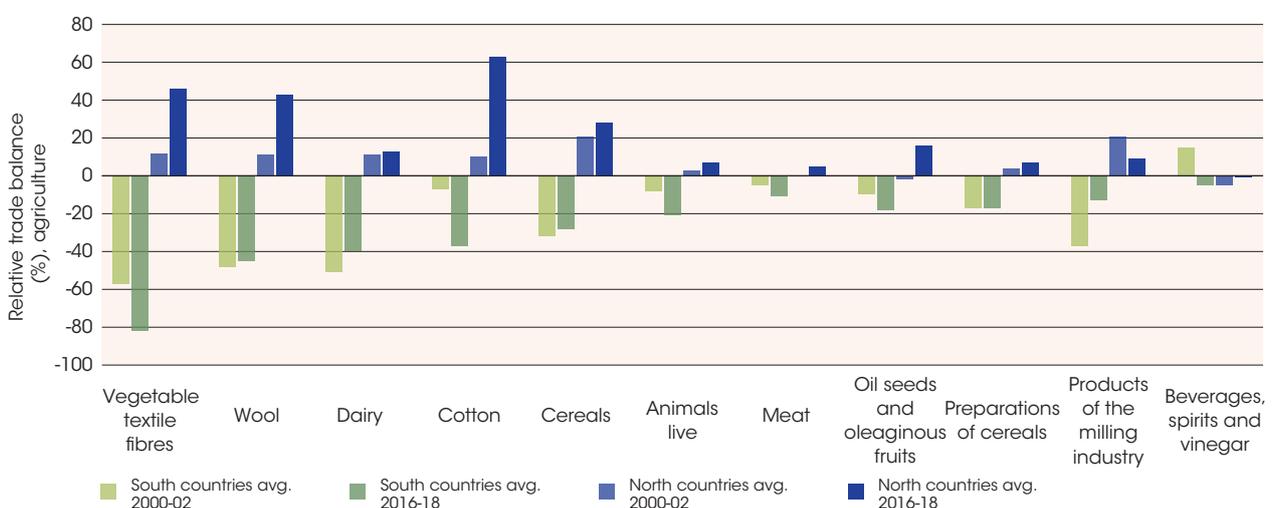


Source: FAO calculations based on UN Comtrade

Net imported products

South countries as a group are net importers of food commodities, such as dairy products, cereals, and meat, as well as fibres such as vegetable textile fibres, wool and cotton (Figure 5). For some of the food commodities, such as dairy, cereals, and products of the milling industry, the trade deficit has declined since 2000–2002, while for several other products, such as meat and oilseeds, the deficit has increased. On average during 2016–2018, South countries’ imports accounted for over 65 percent of world imports of cereals and oilseeds, and over 30 percent of meat and dairy imports (Source: FAO calculations based on UN Comtrade. Figure 6). South countries also account for substantial shares of world imports of products for which they are net exporters. For example, they account for over 50 percent of the world’s imports of oils and fats and sugar, and over 30 percent of fruits and vegetables (not shown). China is a key driver of South countries agricultural imports. During 2016–2018, China accounted for 62 percent of South countries’ total imports of oilseeds, 26 percent of meat, 16 percent of dairy, 16 percent of fats and oils, and 8 percent of cereals. Mexico is a major importer as well, accounting for 10 percent of South countries’ total imports of meat, 6 percent of dairy, 6 percent of cereals and 5 percent of oilseeds. India accounts for a significant share of South countries’

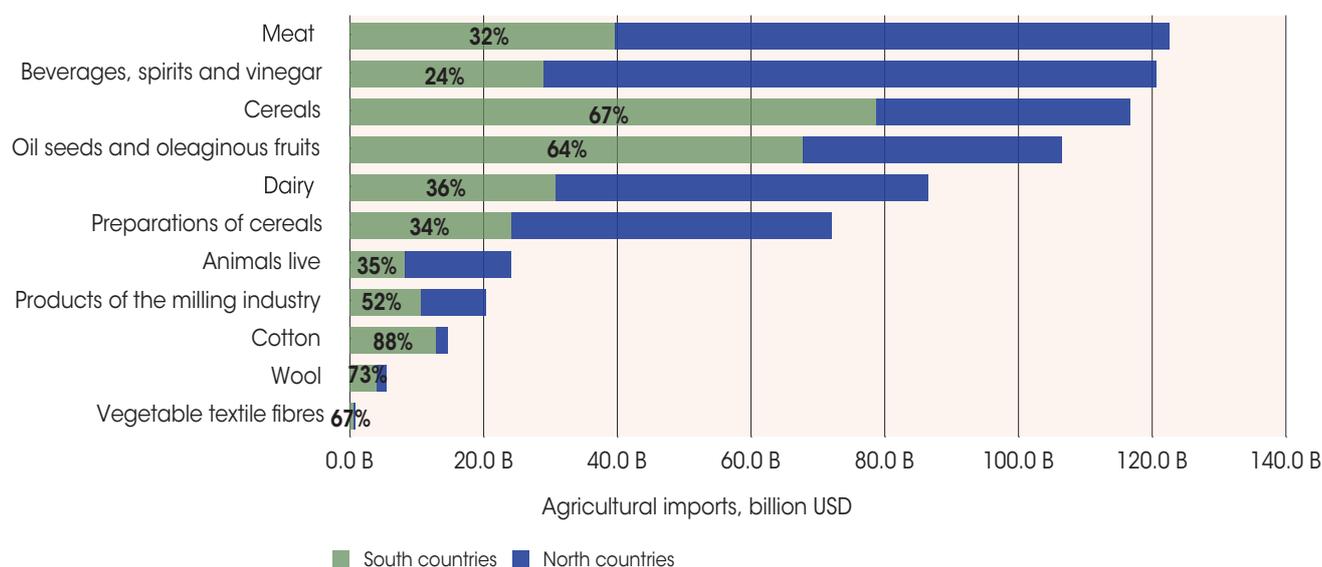
Figure 5. Agricultural commodities for which South countries have a negative relative trade balance (%).



Source: FAO calculations based on UN Comtrade.

imports of fats and oils (21 percent), while Arab countries are important drivers of South countries' imports of cereals (Egypt: 8 percent, Saudi Arabia: 5 percent), meat (Saudi Arabia: 5 percent, Egypt: 4 percent and United Arab Emirates: 4 percent) and dairy (Saudi Arabia: 6 percent and United Arab Emirates: 6 percent).

Figure 6. World agricultural imports, billion USD, average 2016–2018, and share comprised by South countries.

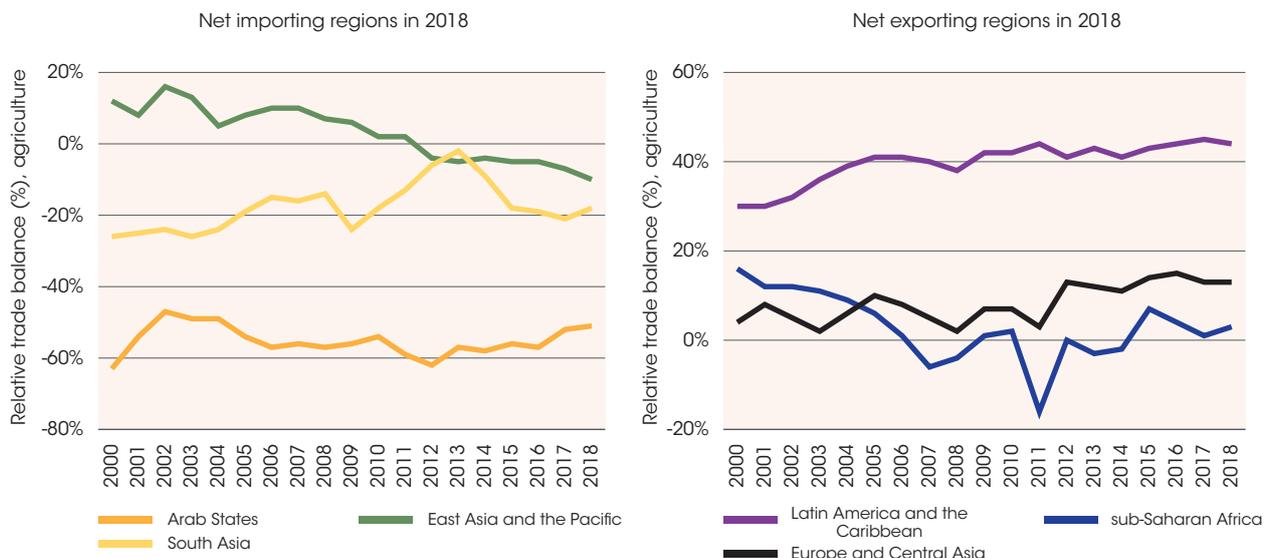


Source: FAO calculations based on UN Comtrade.

2.3 Agricultural trade patterns across South countries

The aggregate relative trade balance for South countries masks significant differences among country groups (Figure 7).⁴ Arab states are significant net importers, followed by South Asia, and since 2010, East Asia and the Pacific switched from being a net exporting region to a net importing region. Over the last two decades, the relative trade balance for sub-Saharan Africa has been volatile, with the region being net importer and exporter at different times. However, since 2015 the relative trade balance is positive (although at a lower level compared to 2000 values). By contrast, the relative trade balance of the Europe and Central Asia region has been positive for all years and has grown since 2011. Meanwhile, Latin America and the Caribbean has been a significant net exporting region for all years, with its relative trade balance growing steadily since 2000. Among the sub-groups of countries across regions, on aggregate, least developed countries (LDCs), Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDS) have each had negative or declining trade balances over the last two decades (Box 2).

⁴ Hereinafter, all import and export data are in nominal terms.

Figure 7. Relative trade balance (%) of South countries by region, agriculture

Source: FAO calculations based on UN Comtrade.

Net importing regions

Normalized by total trade levels, Arab States are the largest net importers of agricultural products, with an overall trade deficit in 2018 of approximately USD 80.7 billion. In 2018, they accounted for 6 percent and 19 percent of South countries' agricultural exports and imports, respectively. Saudi Arabia and Egypt are responsible for a substantial part of this deficit (in 2018, USD 17 billion and USD 13 billion, respectively), followed by Iraq and Algeria (USD 8 billion each). The agricultural trade performance of Arab States overall has improved over time (the RTB increased from -61 percent in 2000 to -54 percent in 2018), with Morocco substantially contributing to this improvement (Morocco's RTB increased from -29 percent in 2000 to -1 percent in 2018).

South Asia is also a large net importing region of agricultural products, reporting a USD 20.3 billion deficit in 2018 (which followed a significant deficit of USD 60 billion in 2017). In 2018, the region accounted for about 8 percent and 11 percent of the South countries' agricultural exports and imports, respectively. There is considerable diversity among countries within this region, with some reporting large agricultural trade deficits (e.g., Iran (Islamic Republic of) and Bangladesh, at USD 7 billion and USD 6 billion, respectively), with others reporting a surplus (e.g. India, at USD 9 billion). Nevertheless, the relative trade balance for all three countries (Bangladesh, Iran (Islamic Republic of) and India) worsened during the 2000–2018 period.

In 2018, the overall agricultural trade deficit of East Asia and the Pacific was USD 45.8 billion. This region accounts for a high share of South countries' exports (33 percent) and imports (41 percent), with China being the major player. This region shifted from a net exporting position in 2000 (with a surplus of USD 27 billion) to a net importing one (from 2009), mostly due to changes in China's agricultural net trade position. While in 2000 China was a net agricultural exporter (surplus of USD 3 billion), since 2004, it has become a net importer, with its agricultural trade deficit reaching USD 62 billion in 2018. The growth in China's agricultural imports (a ten-fold increase in nominal terms) more than offset the growth in its exports (a four-fold increase in nominal terms), with changing dietary patterns contributing to increasing demand for diversified food.

Viet Nam and the Philippines also contributed to the overall regional agricultural trade deficit at USD 12 billion and USD 7 billion, respectively, in 2018. Conversely, several countries in East Asia are net agricultural exporters. In 2018, Thailand, Indonesia and Malaysia recorded significant agricultural trade surpluses (USD 22 billion, USD 11 billion and USD 5 billion, respectively). While the overall agricultural trade performance of Thailand and Malaysia has not significantly changed over time, Indonesia has markedly improved: the relative trade balance increased from approximately 0 percent in 2000, to 20 percent in 2018.

Net exporting regions

The Latin America and Caribbean region is a large net exporter (in 2018 the agricultural trade surplus of the region was USD 140.8 billion) and has considerably improved its performance over time: the relative trade balance of the region increased from 37 percent in 2000 to 49 percent in 2018. It accounts for approximately 37 percent of South countries' agricultural exports and a much lower share of imports (about 14 percent). Brazil and Argentina are significant contributors to this trend (in 2018 their agricultural trade surpluses were USD 78 billion and USD 31 billion, respectively), although they show a different pattern over time. Brazil has steadily improved its agricultural trade performance (the relative trade balance has increased from 56 percent in 2000 to 79 percent in 2018), while Argentina's net trade position remained stable during the period. Other important agricultural net exporters are Chile and Mexico (with each having a surplus of approximately USD 6 billion in 2018), Ecuador and Paraguay (USD 5 billion each) and Peru (USD 4 billion). While these countries are some of world's largest net exporting countries, the region is also comprised of Caribbean countries which are significant net agricultural importers.

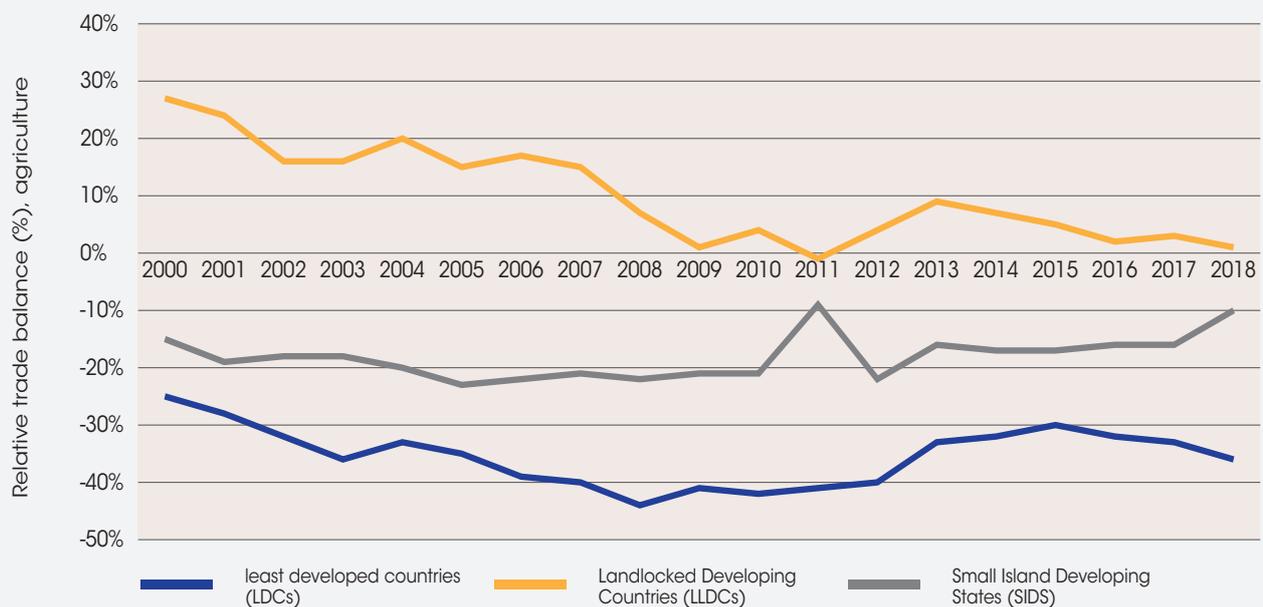
The agricultural trade surplus of Europe and Central Asia in 2018 was USD 13.5 billion, with its relative trade balance having improved over time, from 7 percent in 2000 to 18 percent in 2018. This region accounts for 9 percent and 7 percent of the South countries' agricultural exports and imports, respectively. The major net exporter is Ukraine (with a trade surplus of USD 15 billion in 2018), followed by Turkey (USD 2.5 billion). Several countries (such as Albania, Azerbaijan, Bosnia and Herzegovina and Montenegro) are net importers, while Serbia, which in 2000 had a negative trade balance, became a stable net exporter of agricultural products since 2005.

Sub-Saharan Africa's trade balance has been positive in many years, even though it was a net importer in 2007 and 2008, and in the period from 2011 to 2014. The agricultural trade performance of this region has worsened over time; the relative trade balance in the early 2000s ranged between 15 percent and 20 percent, while in recent years it was lower than 5 percent. Imports increased threefold from 2000 to 2018 in nominal values, while exports grew at a lower rate (2.3 times). Out of 46 countries in the region, 14 had a net agricultural surplus in 2018: South Africa (USD 4 billion), Côte d'Ivoire (USD 6 billion), Ghana (USD 2 billion), and Kenya (USD 1 billion) are among the most important exporters of the area and their overall agricultural trade performance has remained relatively stable. Nigeria and Angola are among the region's most significant net importers, and their net importing position has also remained stable over time. By contrast, many other countries in the region had significantly declining trade balances over the last two decades, including, among others, Benin, Botswana, Congo, Democratic Republic of the Congo, Guinea and Mali.

Box. 2 The trade balances of least developed countries, Landlocked Developing Countries and Small Island Developing States

The LDC group includes 47 countries, based on criteria including income per capita, human assets and economic vulnerability.⁵ LDCs in 2018 accounted for about 4 percent and 8 percent of South countries' agricultural exports and imports, respectively. As a group, they are net agricultural importers and highly dependent on agricultural trade: in 2018, agricultural products accounted for 16 percent and 10 percent of total imports and exports, respectively. Over the period 2000–2008, their agricultural deficit worsened sharply, as the rate of growth of imports (in nominal terms, on average, about 28 percent per year), outpaced the growth of exports (about 16 percent per year) (Figure 8). Since 2009, although the growth in the trade deficit has slowed, it remains higher than it was in 2000.

Figure 8. Relative trade balance (%) of LDCs, LLDCs, and SIDS, agriculture.



Source: FAO calculations based on UN Comtrade.

Another classification of South countries is based on their geographical position. LLDCs are considered to face additional trade and development challenges due to a lack of access to seaports, and deficiencies in land-based infrastructure. They include 32 countries accounting for 4 percent of the total agricultural trade of South countries in 2018.⁶ Overall, they are net exporters of agricultural products, with a significant dependency upon agricultural trade, which accounted in 2018 for 13 percent and 12 percent of their overall exports and imports, respectively. Since 2000 their trade surplus has declined, driven by a high rate of growth of imports. Finally, SIDS are another important group of South countries, which can be particularly exposed to natural and economic shocks beyond their domestic control. This group includes 38 countries accounting in 2018 for about 3 percent and 4 percent of South countries' agricultural imports and exports, respectively.⁷ They are net agricultural importers, with agricultural imports representing 5 percent of their total imports.

⁵ <https://www.un.org/development/desa/dpad/least-developed-country-category.html>

⁶ <https://unctad.org/topic/landlocked-developing-countries/list-of-LLDCs>

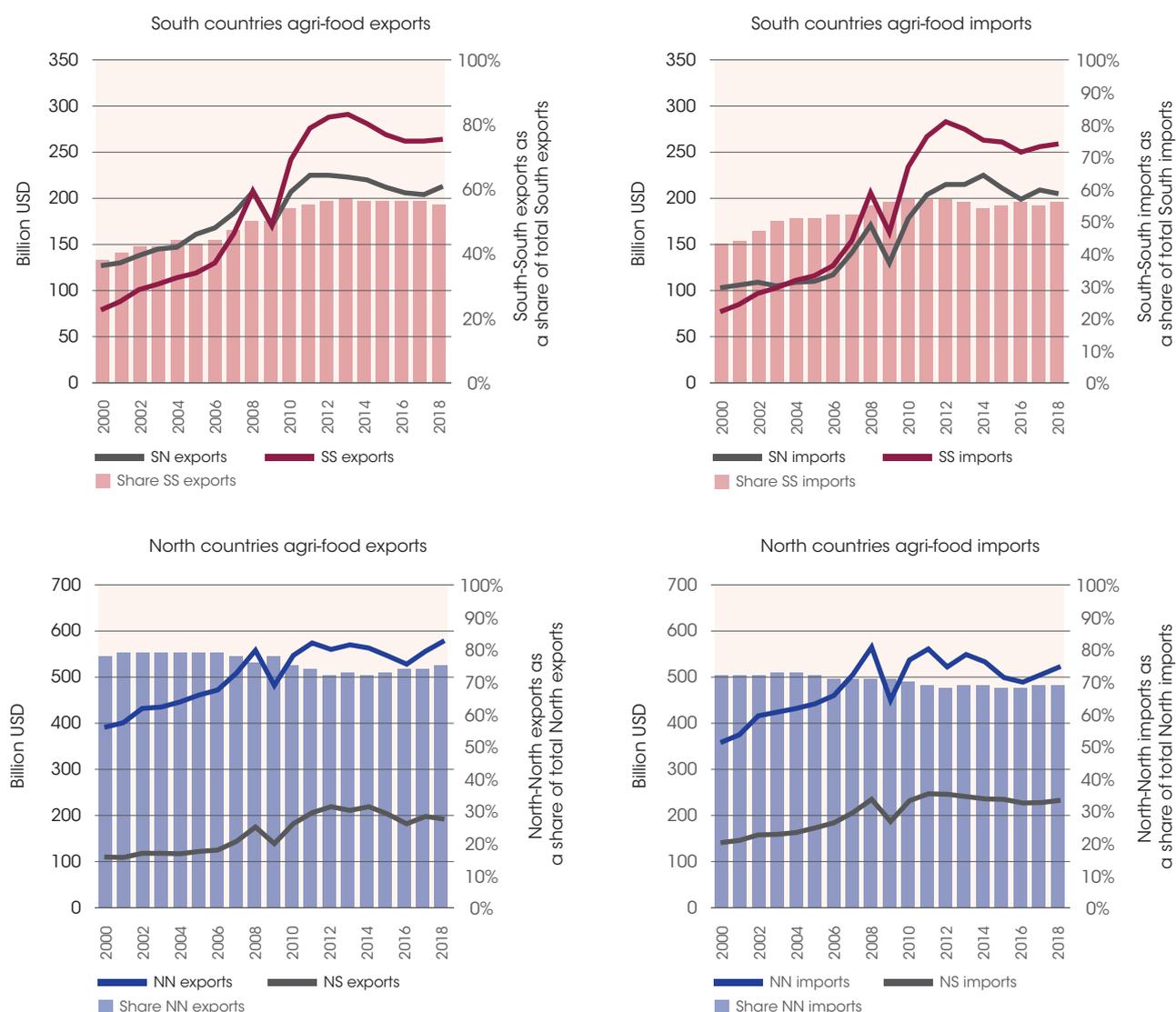
⁷ It is worth noting that not all SIDS and LLDCs are LDCs, and many LDCs are neither SIDS nor LLDCs.

2.4 South-South trade

On average across all South countries in 2016–2018, 56 percent of both their total agricultural exports and imports were destined to/sourced from other South countries. This share increased from 40 percent and 45 percent, respectively, in 2000–2002 (Figure 9). South-South imports already represented 50 percent of total South countries’ agricultural imports in 2003, while for exports the same result was reached in 2008. Annual growth in South-South trade (7 percent for both exports and imports) has outpaced the growth in South-North trade (3 percent for exports and 4 percent for imports) since 2000.

By contrast, the share of within-group trade of North countries in their total agricultural trade is much higher, at 74 percent for exports, and 69 percent for imports in 2016–2018. However, these shares have declined over the last two decades, from 78 percent for exports and 72 percent for imports, in 2000–2002, given that the annual growth rate of North-South trade (3 percent, for both exports and imports), has outpaced the growth in North-North trade (2 percent, for both exports and imports) over this period.

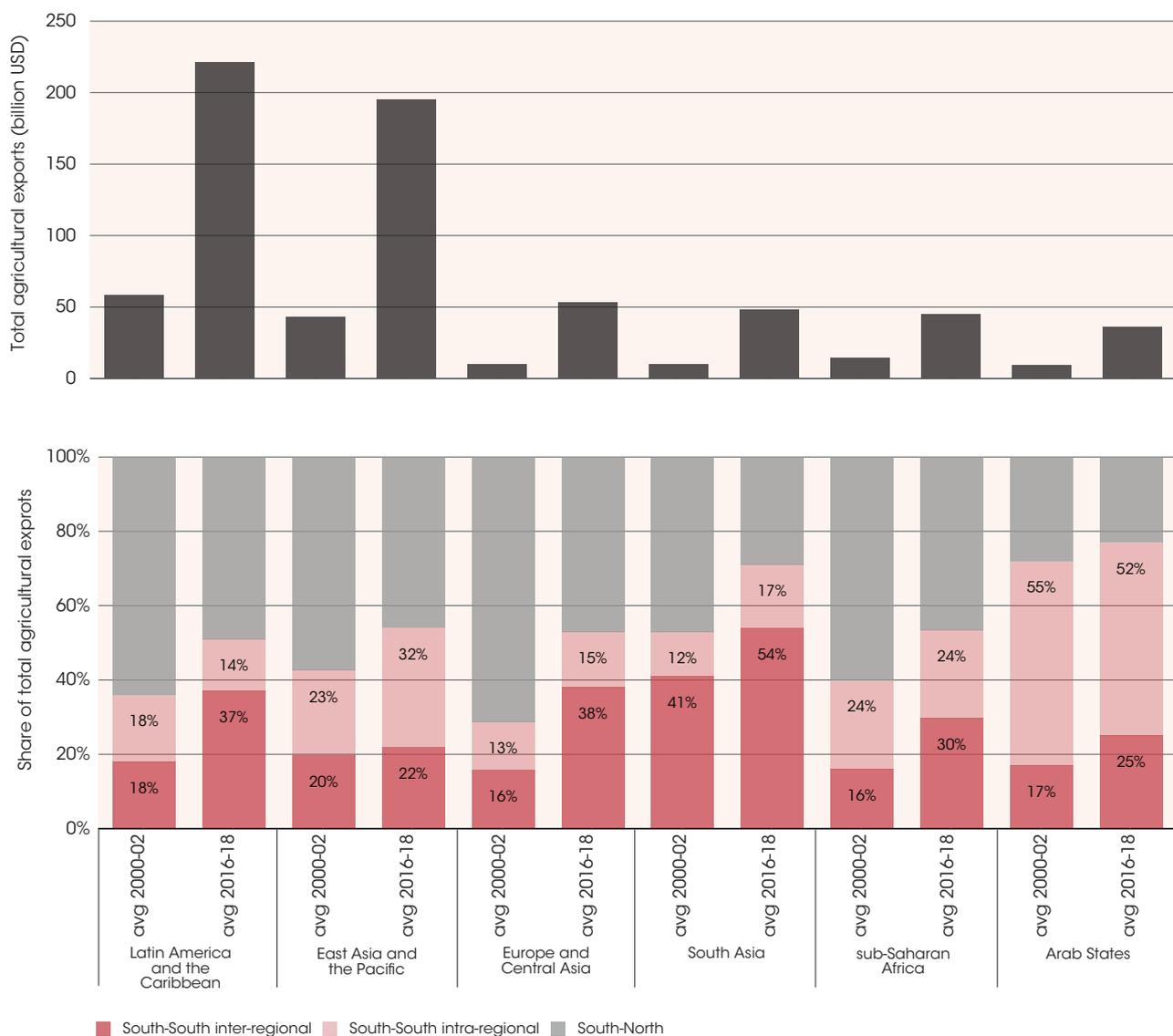
Figure 9. Trends in South-South (SS), South-North (SN), North-North (NN) and North-South (NS) agricultural exports and imports (constant 2010 values).



Source: FAO calculations based on UN Comtrade.

The share of South-South exports in total exports has increased in all regions over the last two decades, driven by increasing shares of inter-regional exports in all regions, which doubled in Latin America and the Caribbean, sub-Saharan Africa and Europe and Central Asia (Figure 10 and Box 3). Shares of intra-regional trade on the other hand, show a mixed trajectory over the same period. While this share increased in East Asia and the Pacific (23 percent to 32 percent), South Asia (12 percent to 17 percent) and Europe and Central Asia (13 percent to 15 percent), it remained the same in sub-Saharan Africa (at 24 percent), and declined in both the lead exporting region, Latin America and the Caribbean (18 percent to 14 percent), and the smallest exporting region, Arab States (55 percent to 52 percent) (Box 4).

Figure 10. Trends in South-South exports of agricultural products, by region



Notes: Total exports in nominal values.

Source: FAO calculations based on UN Comtrade.

Box 3. China as a driver of growing South-South agricultural exports in Latin America and the Caribbean and East Asia and the Pacific – the two South country regions with the largest export volumes

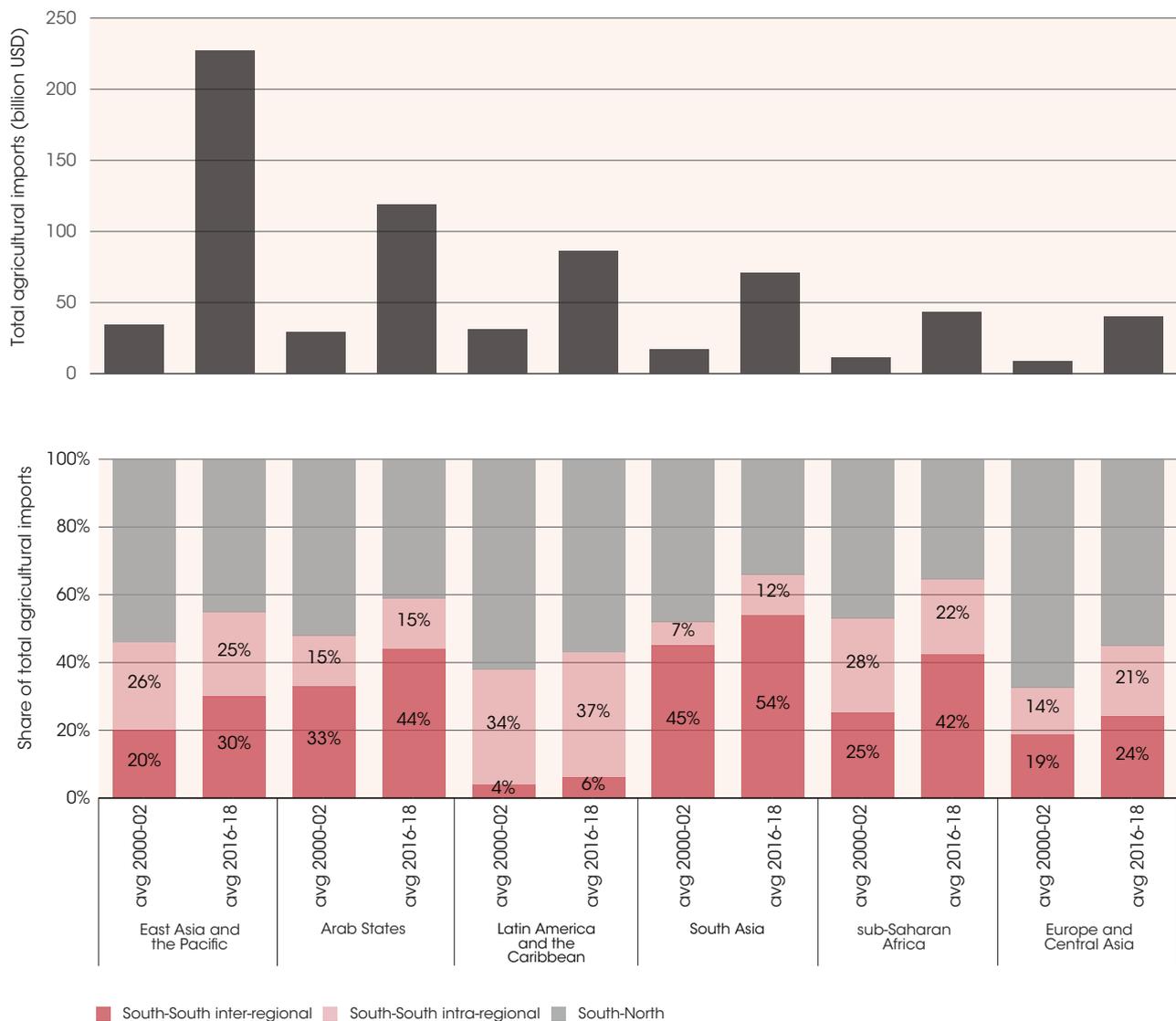
Along with income growth and rising living standards, the average Chinese diet has changed to include more meat, dairy and processed food, as well as fresh fruits, while reducing grain consumption. Poultry consumption increased by 32 percent over the 2000–2019 period (USDA, 2020). Since domestic feed production has not been able to satisfy the increasing demand for feed from the growing poultry industry, driven in part by limitations in China's natural resource endowments, there has been a sharp increase in imports of feed, such as soybeans. This is supplied mainly by Brazil, representing a key driver of the trends in increasing South-South inter-regional exports of Latin America and the Caribbean. China is also the world's third largest fresh fruit importer, with regional trading partners Thailand and Viet Nam supplying 60 percent of this demand.

Box 4. High shares of intra-regional agricultural exports in Arab States

Arab States have the lowest agricultural export volumes among all the South country regions, but the highest levels of intra-regional exports as a share of their total exports (52 percent in 2016–2018). Three countries make up the majority of these intra-regional exports: United Arab Emirates (31 percent), Saudi Arabia (19 percent) and Egypt (14 percent). In 2016–2018 the United Arab Emirates exported USD 3.5 billion of tobacco products, of which USD 1.9 billion were destined to countries within the region. These exports are mainly comprised of rolled tobacco, of which the United Arab Emirates is the world's largest exporter, with countries within the region (particularly Iraq, Somalia, Syrian Arab Republic and Oman) as its main destinations. Two of Egypt's largest agricultural exports in 2016–2018 included fruits (USD 1.34 billion) and vegetables (USD 1.02 billion), of which significant shares were destined for markets within the Arab States region (36 percent and 47 percent respectively); particularly Saudi Arabia, for products such as onions and oranges. In contrast to the United Arab Emirates and Egypt, not only are the majority of Saudi Arabia's agricultural exports destined for intra-regional markets (on average, 96 percent, for its top exports of dairy products, preparations of cereals, flour, starch or milk, and preparation of vegetables, fruit and nuts), they are also largely comprised of re-exports. For instance, in 2018, Saudi Arabia imported roughly USD 750 million of milk and milk powder, and exported USD 514 million, mostly to the United Arab Emirates, Kuwait, Bahrain and Oman. Similarly, it imported USD 1.45 billion in cereal preparations, and exported roughly USD 450 million, mostly to United Arab Emirates, Kuwait, and Iraq.

The share of South-South imports in total imports is highest in South Asia, sub-Saharan Africa and Arab States (at 66 percent, 65 percent and 59 percent, respectively), and these are largely made up of imports from other South country regions (Figure 11). Moreover, inter-regional imports have increased in these regions: sub-Saharan Africa (25 percent to 42 percent), Arab States (33 percent to 44 percent) and South Asia (45 percent to 54 percent). By contrast, Latin America and the Caribbean has very low shares of inter-regional imports (6 percent), with most of its agri-food imports sourced either from North countries or from within the Latin America and Caribbean region (Box 5).

Figure 11. Trends in South-South imports of agricultural products, by region



Notes: Total imports in nominal values.

Source: FAO calculations based on UN Comtrade.

Box 5. Low shares of inter-regional agricultural imports in Latin America and the Caribbean

By contrast to other South country regions, where South–South inter-regional imports comprise at least 24 percent of their total agricultural imports, this share stands at only 6 percent for Latin America and the Caribbean. On average, 64 percent of its top four imports (cereals, meat, residues and waste from food industries and animal feed, and oilseeds), originated in North countries, with the remainder coming from countries within the Latin America and Caribbean region. In fact, the sources of imports tend to be concentrated in either North or intra-regional countries. For instance, the top three cereal importers in the region include Mexico, Brazil and Colombia. Mexico and Colombia source, on average, 91 percent of these imports from North countries (mostly maize from the United States), whereas Brazil sources roughly 90 percent from within the Latin America and Caribbean region (wheat from Argentina, and rice and maize from Paraguay). Similarly for meat, among the top five importers in the region, Mexico, Colombia and Peru derive on average 85 percent of their imports from North countries (pork, beef and poultry from the United States),

while 83 percent of meat imports are intra-regional in Brazil (beef from Uruguay, Argentina and Paraguay) and Chile (beef from Brazil, Paraguay and Argentina). It should be noted however, that intra-regional trade within the Latin America and Caribbean region tends to be among countries within the same sub-region (see **Box 14** in Chapter 5).

Among the Latin America and Caribbean region's top agricultural imports, only animal and vegetable oils and fats were sourced from other South country regions (making up for instance, 12 percent of total imports of these products in Brazil, 29 percent in Haiti, and 18 percent in Argentina, with most of these sourced from Indonesia and Malaysia). Other commodities with relatively smaller import volumes but for which, on aggregate, inter-regional imports make up an important source of total imports, include vegetables (20 percent, particularly from China); preparations of meat and fish (26 percent, particularly from China and Thailand); cocoa and cocoa preparations (24 percent, particularly from Côte d'Ivoire and Ghana); and coffee, tea, maté and spices (39 percent, particularly from Sri Lanka, China, India and Viet Nam).

3 Dependence on agricultural trade in South countries

Key Messages:

- On aggregate, most South country regions have witnessed a reduction in dependency of trade flows on specific origins and destinations, as measured by the concentration of imports and exports in the top three trading partners, over the last two decades.
- On the other hand, product dependency in exports – as measured by the concentration of agricultural exports in the top three products – has grown in most South country regions over the last two decades.
- The aggregate trends and drivers mask significant diversity by country, with many countries facing greater risks and vulnerabilities than others. In many LDCs and SIDS, agricultural exports comprise over 50 percent of all merchandise exports, which in turn are concentrated in a few products.
- High overall dependency on agricultural trade, or dependence on specific products and/or partners, can make countries increasingly vulnerable to market and policy-related shocks. Diversifying the portfolio of products traded as well as trading partners, complemented by efforts to promote sustainable production practices, can increase resilience to exogenous shocks.

This section focuses on the challenges posed by high exposure to trade and describes them at three levels of dependencies. The first measures the dependency of a given country on agricultural trade (exports and imports); the second captures the dependency of countries on individual agricultural commodities; and the third the dependency of countries on individual export destinations and import suppliers (Table 1). The combination of these ratios can be used to gauge the overall trade vulnerability of a country.⁸

A large portion of export earnings derived from agriculture, and even from a few commodities within agriculture, means that these economies are exposed to shocks that may emanate from specific export destinations or global agricultural markets at large. Shocks or longer-term slumps in commodity markets can translate directly into macroeconomic shocks, affecting these countries' exchange rates, overall current account balance, GDP growth, inflation rates and incomes. Unsurprisingly, the currencies of these countries are often referred to as “commodity currencies” (Yu-chin and Rogoff, 2003). 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), which are in turn dependent on both market- and policy-induced factors, can put downward pressure on wages and labour standards and result in rural–urban and eventually international migration, potentially even translating into financial and political vulnerability. This analysis

⁸ Given the large number of countries captured in this analysis, trends are mainly presented as regional aggregates, with country cases used as illustrative examples of the aggregate trends.

will not elaborate on the possible impacts of trade vulnerabilities, but it will measure their overall extent and identify specificities of countries and products.

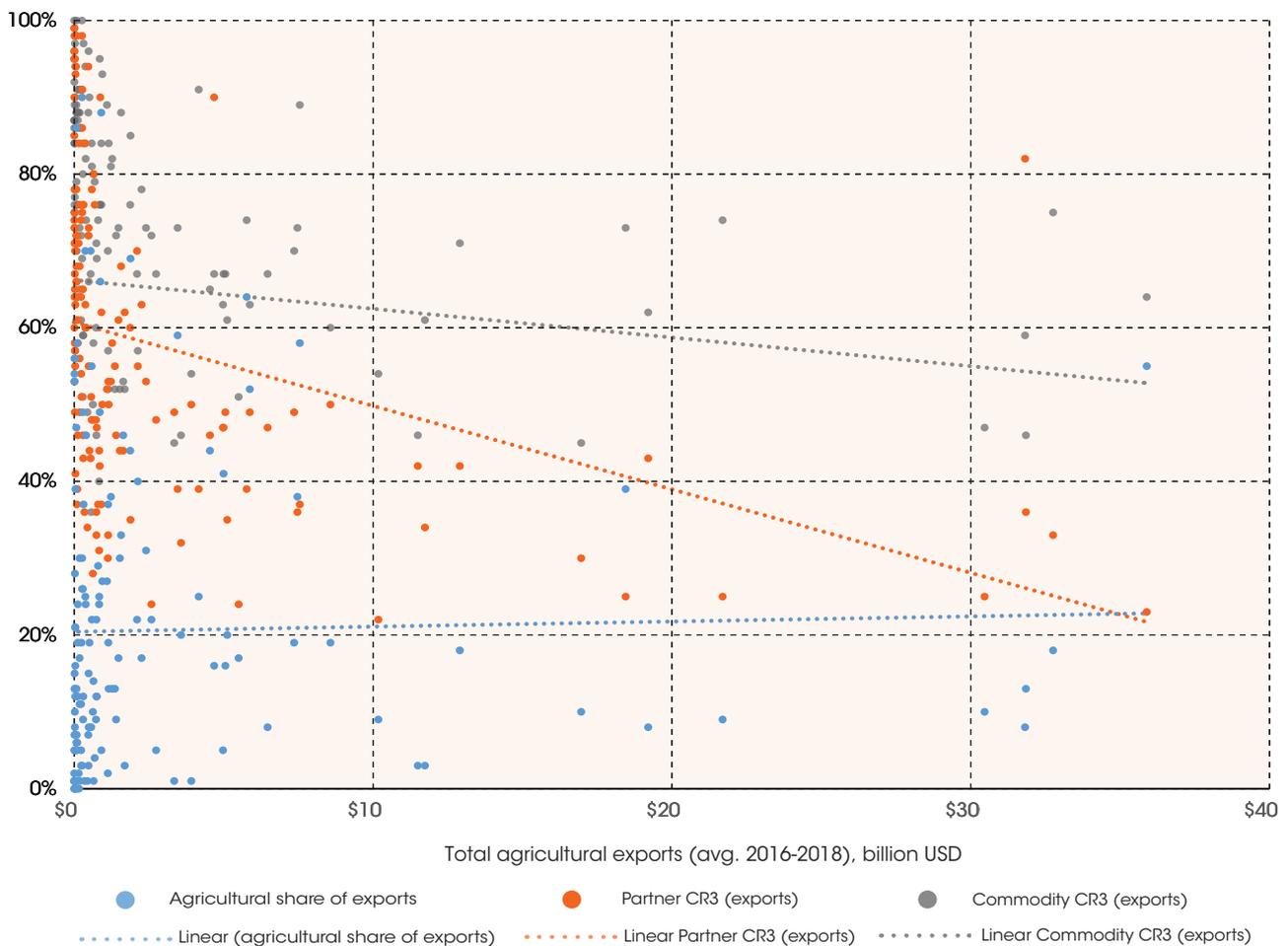
Table 1. Real prices of food, beverages and raw materials, index, 2010=100, 1961–2020

INDICATOR	DESCRIPTION
OVERALL AGRICULTURAL TRADE DEPENDENCY	
Exports: value of agricultural exports as a share of total merchandise exports	Captures the extent to which countries rely on agricultural exports for their foreign exchange earnings, and thus their vulnerability to shocks affecting agricultural prices and/or market access.
PARTNER DEPENDENCY	
Exports: concentration ratio-3 of agricultural export destinations	The share of the top three destinations in total agricultural exports, capturing the extent of vulnerability to market shocks or policy changes in export markets.
Imports: concentration ratio-3 of agricultural import suppliers	The share of the top three suppliers in total agricultural imports, capturing the extent of vulnerability to market shocks or policy changes in supplier countries.
PRODUCT DEPENDENCY	
Exports: concentration ratio-3 of agricultural export products	The share of the top three products in total agricultural exports, capturing the extent to which a country specializes in its agricultural export portfolio and vulnerability to market shocks affecting these products.
Imports: concentration ratio-3 of agricultural import products	The share of the top three products in total agricultural imports, capturing the extent of vulnerability to market shocks affecting these products.

3.1 Dependence on agricultural exports

On average across all South countries, commodity dependence (as measured by the concentration-ratio 3, CR3) in exports tends to be higher than partner dependence. That said, South countries with higher levels of agricultural exports tend to have lower levels of both commodity and partner dependency (Figure 12). This implies, in turn, improved resilience to shocks in international markets. However, agricultural exports as a share of total exports tend to remain the same (or slightly increase), regardless of the level of exports, across all South countries.

Figure 12. Correlation between agricultural export values and share of agricultural exports in total merchandise exports, partner CR3 and commodity CR3 in exports for all South countries, average 2016–2018 values



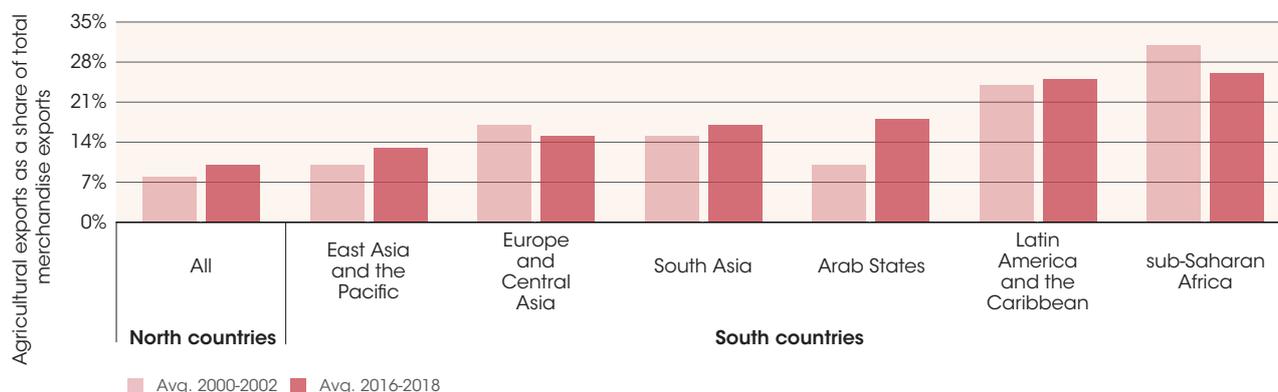
Note: Dots of different colours represent the same country at any given value of agricultural exports.

Source: FAO calculations based on UN Comtrade.

On average across all countries at a regional level, in 2016–2018, the share of agricultural exports as a share of total merchandise exports was highest among countries in sub-Saharan Africa (26 percent), followed by Latin America and the Caribbean (25 percent) (Figure 13). This share increased in most South country regions over the last two decades, ranging from an increase of 1 percentage point in Latin America and the Caribbean, 2 percentage points in both South Asia and East Asia and the Pacific, and 8 percentage points in the Arab States, while declining in sub-Saharan Africa and Europe and Central Asia (by 4 percentage points and 2 percentage points, respectively).⁹ These regional aggregates however, mask significant diversity by country, with several countries having over 50 percent of total merchandise earnings derived from agricultural exports (Box 6).

⁹ The increase in the share of agricultural exports in total merchandise exports is most notable for Arab States, (from 10 percent on average in 2000–2002 to 18 percent on average in 2016–2018). While this share increased for all countries in the region, the sharp increase is driven by four countries, many of which have been affected by conflict in recent years (Somalia and the Syrian Arab Republic, with shares equal to 70 percent in 2016–2018, and Djibouti and Sudan at 47 percent and 44 percent, respectively). These countries also had a high concentration of products in their exports. In Somalia, 94 percent of all agricultural exports are comprised of hides and skin, fruit and oilseeds; in the Syrian Arab Republic, 70 percent are from fresh/processed vegetables, coffee and tea. Moreover, for Sudan, since data was not available for 2000–2002, this also over-estimates the increase in the average for Arab States between 2000–2002 and 2016–2018.

Figure 13. Agricultural exports as a share of total merchandise earnings, simple average of all countries by region

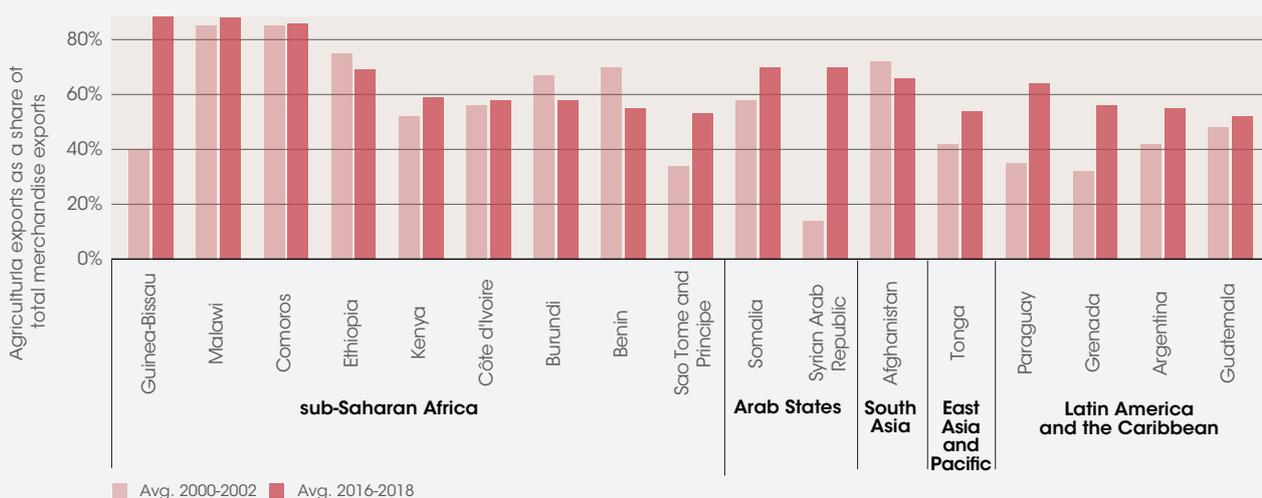


Source: FAO calculations based on UN Comtrade.

Box 6. Countries with high dependency on agricultural exports for merchandise export earnings

While Figure 13 shows that the average share of agricultural exports in total merchandise exports was no more than 26 percent in any region in 2016–2018, there were 17 South countries for which this share was over 50 percent (Figure 14). These countries represent different geographic, economic and development contexts: nine countries are from sub-Saharan Africa (of which seven are least developed countries, and/or Small Island Developing States) and four are from Latin America and the Caribbean (all of which are upper middle income countries).¹⁰

Figure 14. South countries with shares of agricultural exports representing over 50 percent of total merchandise exports, on average 2016–2018



Source: FAO calculations based on UN Comtrade.

¹⁰ Overall in Figure 14, there are five SIDS from different regions (Comoros, Guinea-Bissau and Sao Tome and Principe in sub-Saharan Africa; Tonga in East Asia and the Pacific; and Grenada in Latin America and the Caribbean); nine LDCs, including some SIDS (eight in Africa: Benin, Burundi, Comoros, Ethiopia, Guinea-Bissau, Malawi, Sao Tome and Principe, and Somalia; and one in South Asia: Afghanistan).

High shares in SIDS may be expected, since services exports (such as tourism) are not included in total merchandise exports, and given their natural endowments, merchandise exports tend to be concentrated in a few products, including agriculture. High and increasing shares in countries in Latin America and the Caribbean on the other hand – which are among the world’s largest exporters – are due to increasing specialization in agricultural exports, and particularly in specific commodities.

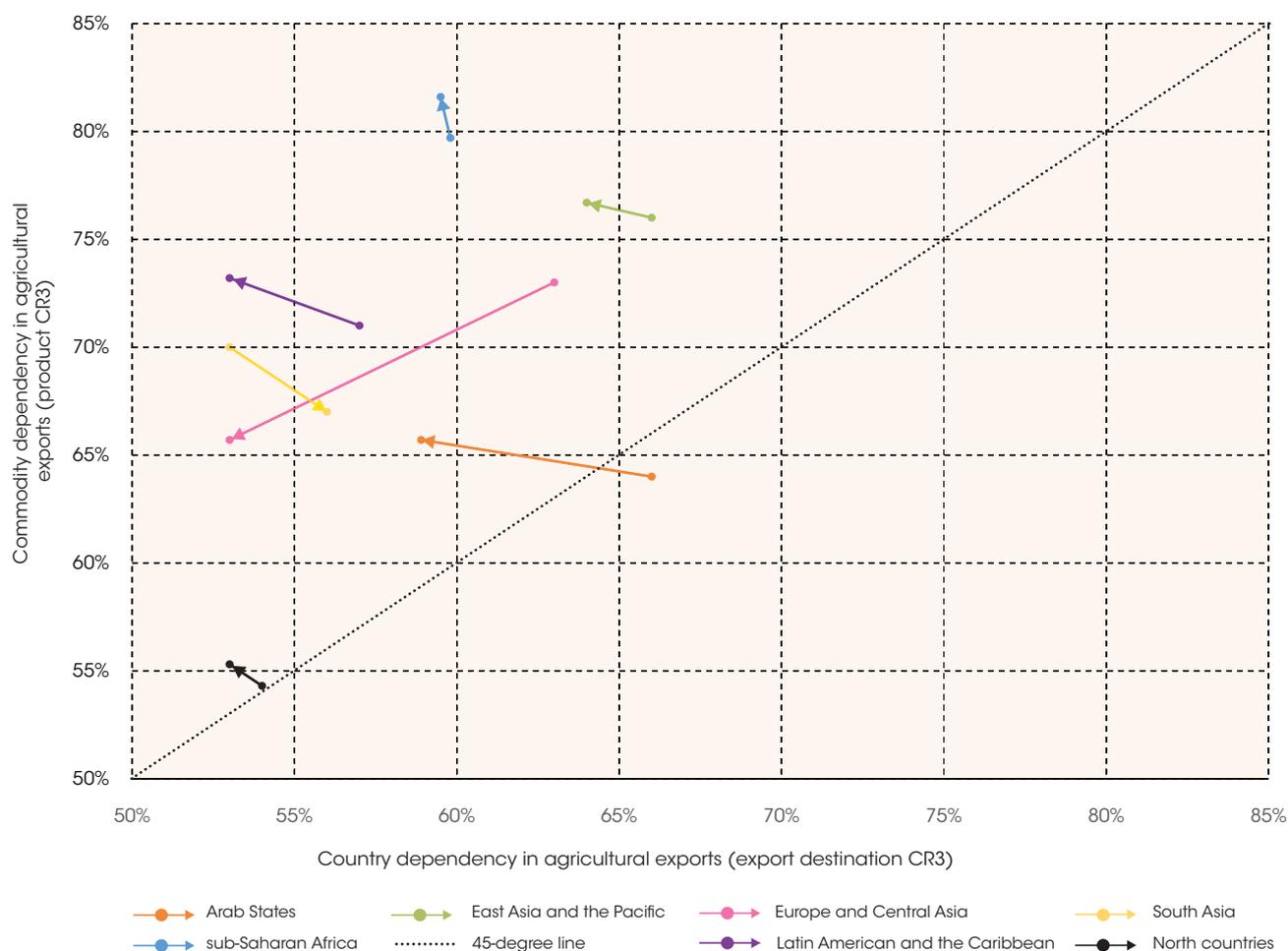
Figure 15 provides a scatterplot of the simple averages of the CR3 of exports of all countries within a region, for both trading partners (x-axis) and commodities (y-axis). This provides a snapshot of: 1) the extent to which countries within a region are dependent on both a small number of export destinations and commodities; 2) relative dependency on export destinations or commodities (i.e. regions above the 45-degree line are more dependent on a small number of agricultural commodities than they are on a small number of export destinations); and 3) the change over time from 2000–2002 to 2016–2018 (depicted by arrows, with horizontal shifts representing changes in country dependency and vertical shifts, in commodity dependency).

It shows that in 2016–2018, in all South country regions, export dependency as measured by CR3 was higher, in both export destinations and commodities, than in North countries, for which, on average, these shares were 53 percent and 55 percent, respectively. Country dependency was highest in East Asia and the Pacific (CR3 of 64 percent), while commodity dependency was highest in sub-Saharan Africa (CR3 of 81 percent). In 2016–2018, all South country regions were relatively more dependent on their top three agricultural commodity exports than on their top three agricultural export destinations.

Moreover, except South Asia, all regions decreased their country dependency over the last two decades, while commodity dependency went up in all regions except Europe and Central Asia and South Asia.¹¹ High commodity dependency is particularly problematic in countries in Latin America and the Caribbean and sub-Saharan Africa, where agricultural exports also comprise a high share of total merchandise exports (Box 7). By contrast, Europe and Central Asia was the only region where both commodity and country dependency declined over the last two decades, although the aggregates mask several differences across countries (Box 8).

¹¹ South Asia’s rising CR3 in export destinations is driven by Bhutan (from 80 percent to 98 percent, mainly India); Afghanistan (from 61 percent to 90 percent, mainly India and Pakistan); Iran (Islamic Republic of) (from 33 percent to 47 percent, mainly Iraq, and to a lesser extent, Afghanistan and United Arab Emirates); and Pakistan (from 18 percent to 35 percent, mainly China, Afghanistan and United Arab Emirates).

Figure 15. Trends in commodity and partner dependencies (CR3) in agricultural exports, from 2000–2002 to 2016–2018, simple averages for all countries by region

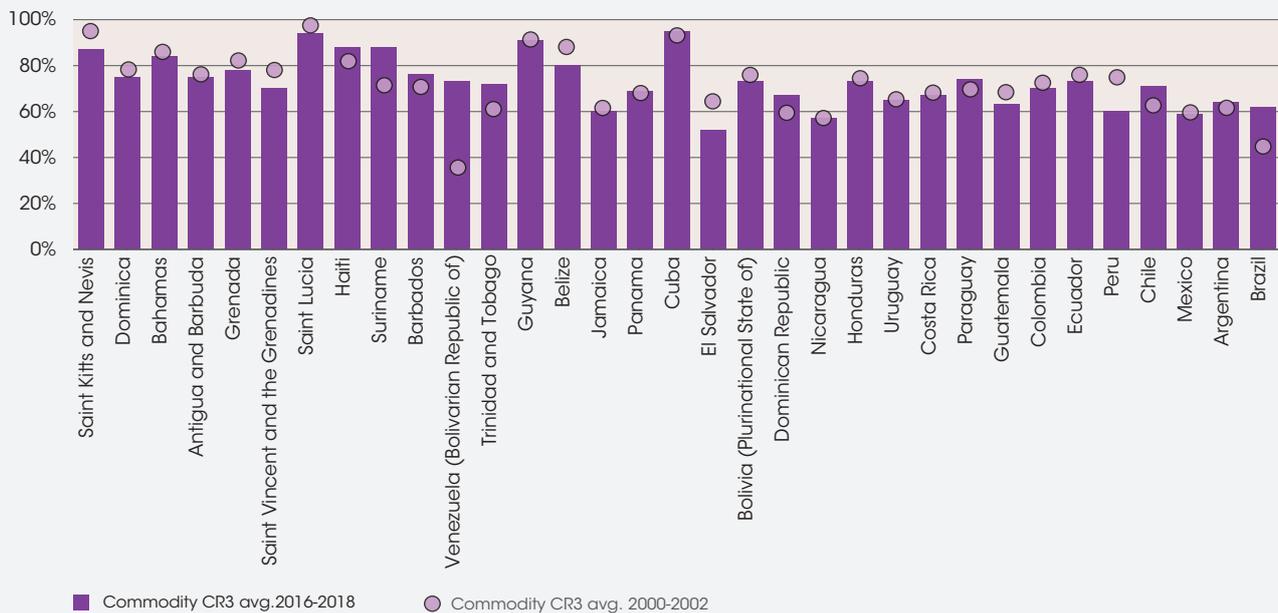


Source: FAO calculations based on UN Comtrade.

Box 7. Agricultural export dependency in Latin America and the Caribbean and sub-Saharan Africa

Among all South country regions, Latin America and the Caribbean (LAC) is the largest exporter of agricultural products, with three countries (Brazil, Argentina and Mexico) accounting for 68 percent of all LAC exports. In these countries, the top three agricultural exports make up between 59 percent and 64 percent of total agricultural exports, having increased (44 percent to 62 percent in Brazil, and 61 percent to 64 percent in Argentina), or remained roughly the same (60 percent to 59 percent in Mexico), since 2000–2002 (Figure 16). The main agricultural exports are soybeans, meat (mainly beef and poultry) and coffee in Brazil; soybeans, cereals (mainly maize and wheat) and meat (mainly beef) in Argentina; and fruits and berries, vegetables, and meat (mainly beef) in Mexico. Moreover, as noted in Figure 13, in several LAC countries (Argentina, Guatemala, Grenada and Paraguay), agricultural exports comprise over 50 percent of total merchandise exports. This, combined with high commodity dependencies in all four of these countries can leave these countries particularly exposed. In Paraguay, for instance, 64 percent of total merchandise exports come from agriculture, of which 63 percent come from three products (soybeans, soybean meal and beef), and the country’s main three buyers (Argentina, the Russian Federation, and the European Union) absorb 48 percent of its agricultural exports. Even for Colombia, the export exposure is considerable.

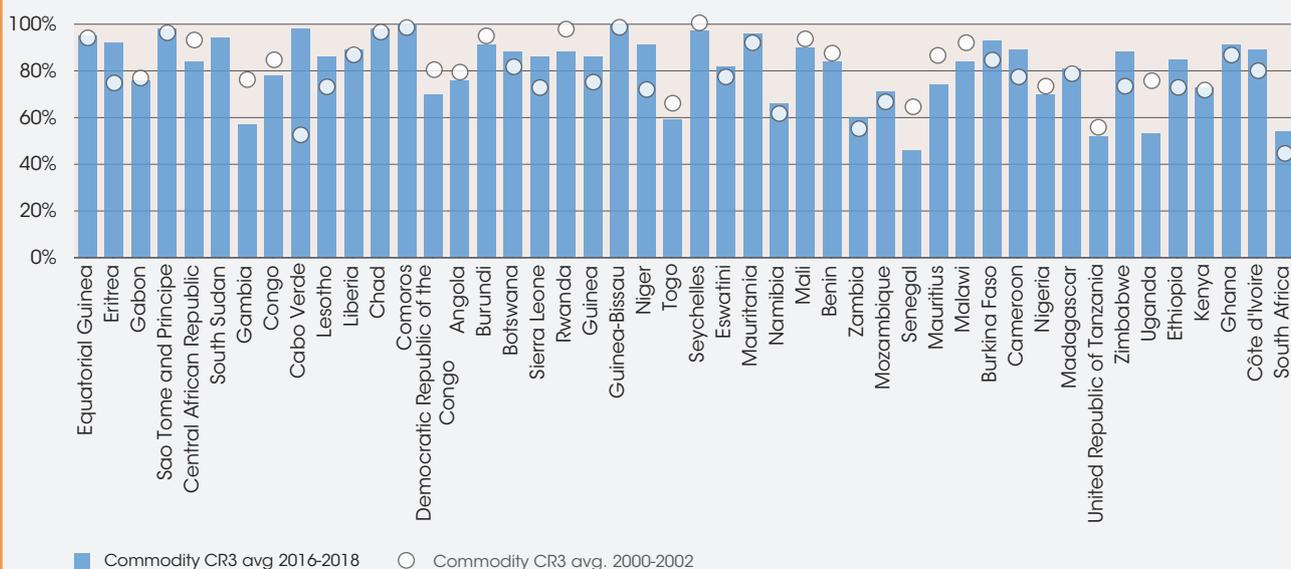
Figure 16. Trends in commodity dependencies (CR3) in agricultural exports of South countries in Latin America and the Caribbean, from 2000–2002 to 2016–2018



Notes: Countries ordered by increasing levels of agricultural exports from left to right (i.e. highest Brazil).

Source: FAO calculations based on UN Comtrade

Figure 17. Trends in commodity dependencies (CR3) in agricultural exports of South countries in sub-Saharan Africa, from 2000–2002 to 2016–2018



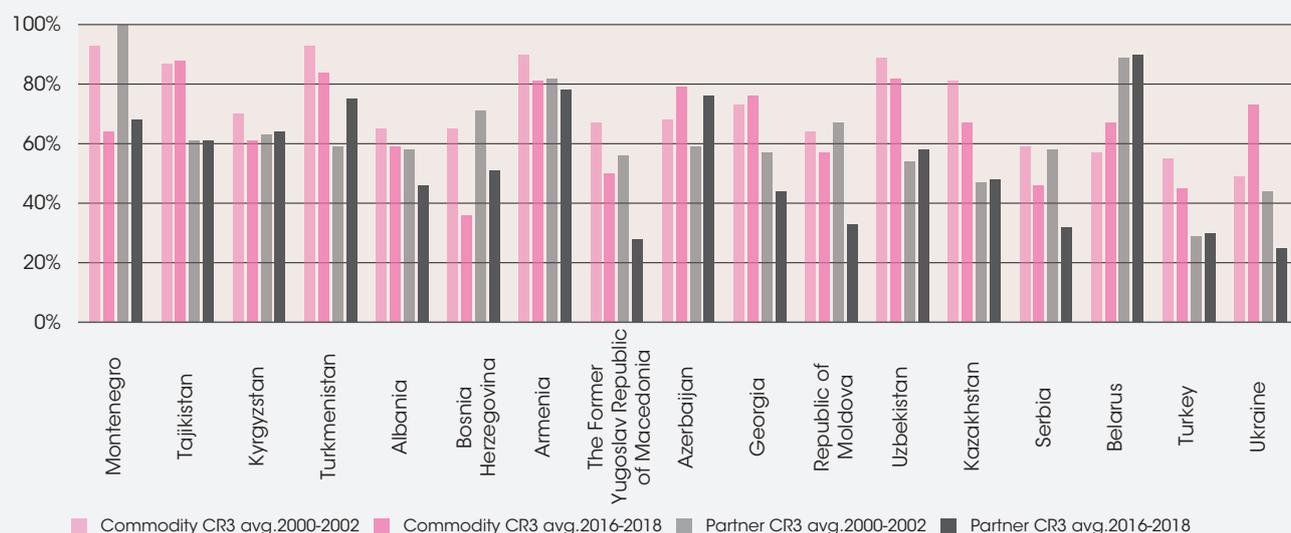
Note: Countries ordered by increasing levels of agricultural exports from left to right (i.e. highest South Africa).

Source: FAO calculations based on UN Comtrade.

Box 8. Agricultural export dependency in Europe and Central Asia

On aggregate, commodity CR3 has declined among South countries in Europe and Central Asia over the last two decades, including in some large exporting countries, such as Turkey and Kazakhstan, suggesting increasing diversification in their agricultural export portfolios (Figure 18). At the same time, there are other large exporting countries where the opposite has occurred. For instance, in Ukraine, commodity CR3 increased significantly, from 49 percent to 73 percent (mainly comprising wheat and maize, and sunflower-seed oil), and in Belarus, from 57 percent to 67 percent (mainly comprising dairy products such as cheese, milk powder and butter). Trends in partner CR3 also show a heterogeneous pattern among the large exporters in the region: while it declined in Ukraine (from 44 percent to 25 percent), and Serbia (from 58 percent to 32 percent), it remained almost unchanged in Turkey (30 percent), Belarus (90 percent, with the Russian Federation as the main export market), and Kazakhstan (48 percent).

Figure 18. Trends in commodity and country dependencies (CR3) in agricultural exports of South countries in Europe and Central Asia, from 2000–2002 to 2016–2018



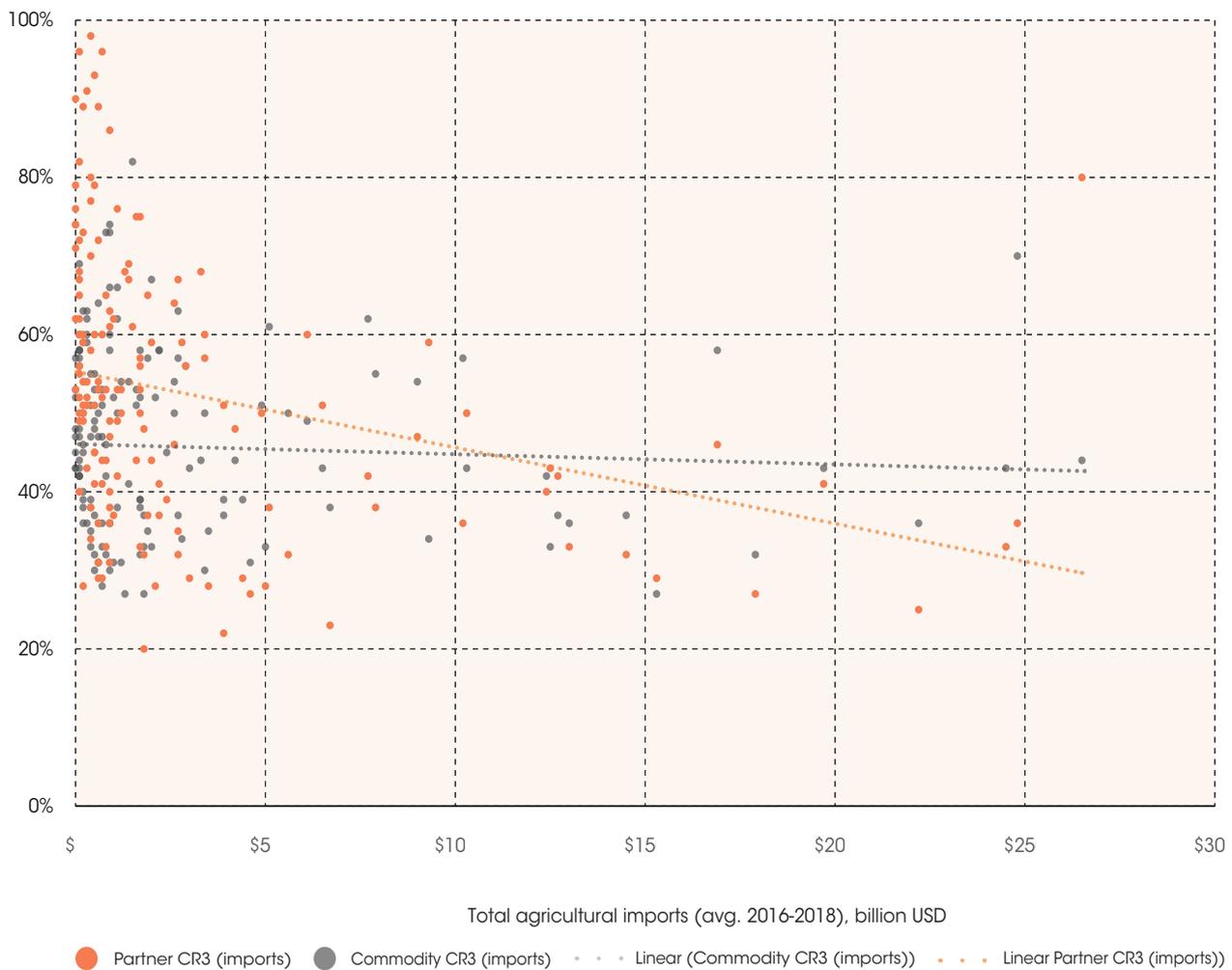
Note: Countries ordered by increasing levels of agricultural exports from left to right (i.e. highest Ukraine).

Source: FAO calculations based on UN Comtrade.

3.2 Dependence on agricultural imports

South countries with higher levels of agricultural imports tend to have lower levels of partner CR3 (Figure 19). This indicates an improved resilience to shocks affecting trading partners as import volumes increase. Commodity CR3 in imports still tends to persist at similar levels, regardless of import volumes.

Figure 19. Correlation between agricultural import values and partner CR3 and commodity CR3 in imports for all South countries, excluding China,¹² average 2016–2018 values



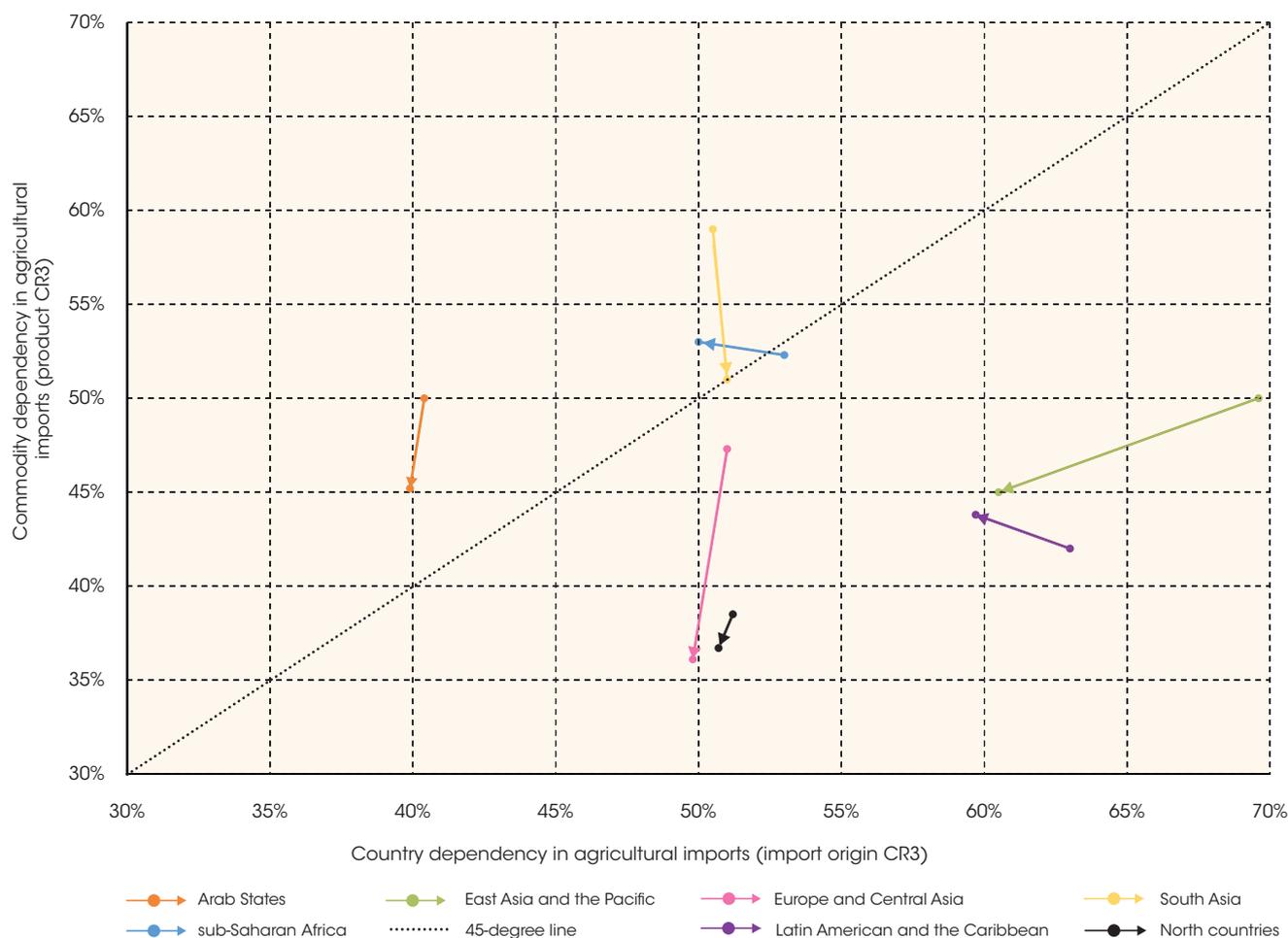
Note: dots of different colours represent the same country at any given level of agricultural imports

Source: FAO calculations based on UN Comtrade.

Figure 20 provides a scatterplot of the simple averages of the CR3 of imports of all countries within a region, for both trading partners (x-axis) and commodities (y-axis). In 2016–2018, both partner and commodity dependency in imports was higher in South country regions on average (at 52 percent and 46 percent, respectively) than North countries. Partner CR3 was highest in East Asia and the Pacific (61 percent), followed by Latin America and the Caribbean (59 percent), while commodity dependency was highest in sub-Saharan Africa (54 percent) followed by South Asia (51 percent). Unlike for exports, in several South country regions (East Asia and the Pacific, Latin America and the Caribbean, and Europe and Central Asia), import dependency (as measured by CR3) was higher in trading partners than in commodities. Partner dependency nevertheless declined in all regions or remained relatively the same (South Asia (Box 9)), as did commodity dependency, except Latin America and the Caribbean, and sub-Saharan Africa (Box 10).

¹² China's agricultural imports of over USD 120 billion are more than four times as large as the next largest importer (Mexico), and it is therefore excluded, although the general trend remains the same even with its inclusion.

Figure 20. Trends in commodity and partner dependencies (CR3) in agricultural imports, from 2000–2002 to 2016–2018, simple averages for all countries by region

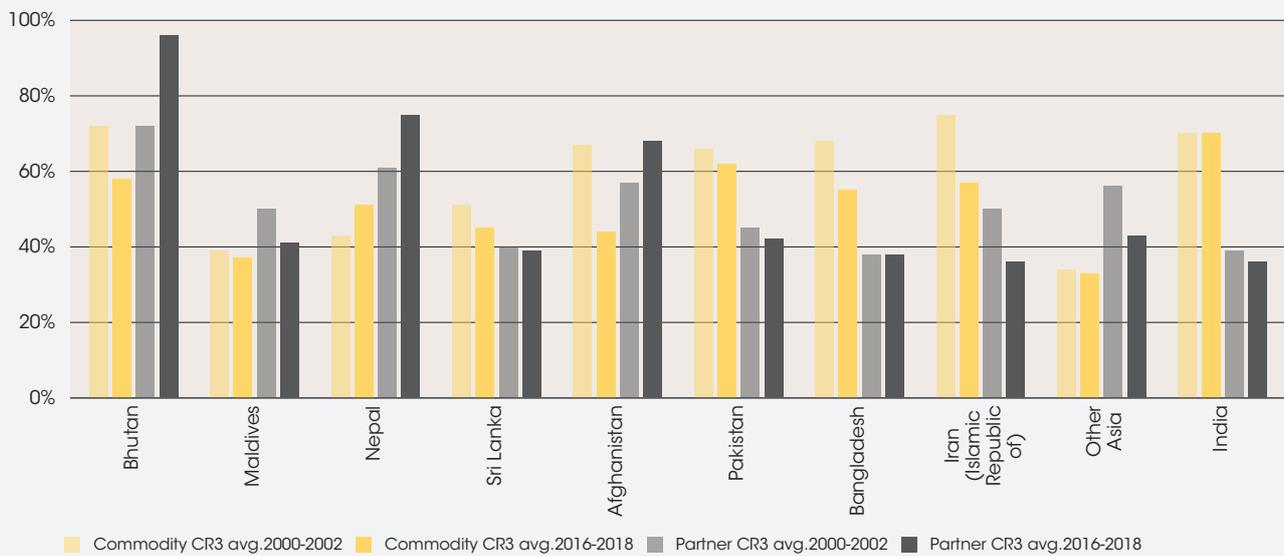


Source: FAO calculations based on UN Comtrade.

Box 9. Agricultural import dependency in South Asia

Countries in South Asia have, on average, a commodity CR3 in imports of 51 percent, with the share highest in the largest importer in the region (India, 70 percent, dominated by palm oil, soybeans and cashew nuts) (Figure 21). The extent of India’s diversification in both commodity imports, and sources of imports, has remained relatively constant over the last two decades. By contrast, in several other South Asian countries, both commodity and partner CR3 in imports have declined (Maldives, Sri Lanka, Pakistan, and Iran (Islamic Republic of)); the commodity dependence decreased but partner dependence significantly increased in Bhutan (mainly from India) and Afghanistan (mainly from Pakistan, Kazakhstan and Iran (Islamic Republic of)), while in Nepal, both dependencies increased.

Figure 21. Trends in commodity and partner dependencies (CR3) in agricultural imports of South countries in South Asia, from 2000–2002 to 2016–2018



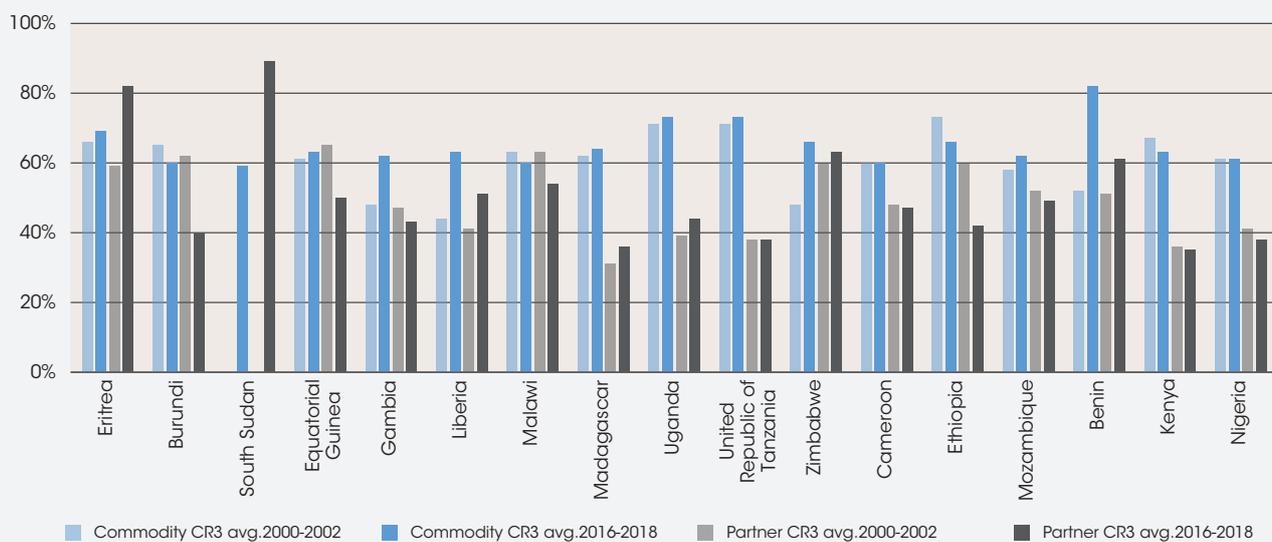
Note: Countries ordered by increasing levels of agricultural imports from left to right (i.e. highest India).

Source: FAO calculations based on UN Comtrade.

Box 10. Agricultural import dependency in sub-Saharan Africa

Countries in sub-Saharan Africa have, on average, the highest commodity CR3 in imports of all regions, and this share has either increased or remained the same for most countries (Figure 22). For instance, in 2016–2018, there were 17 countries in the region with commodity CR3 in imports of over 60 percent, having increased from 2000–2002 levels in ten of these countries (Benin, Equatorial Guinea, Eritrea, Gambia, Liberia, Madagascar, Mozambique, United Republic of Tanzania, Uganda and Zimbabwe). The most significant increases were in Benin (increase of 30 percent, with imports in 2016–2018 mainly comprised of rice, palm oil and sugar); Liberia (18 percent, key imports comprising rice, poultry meat and palm oil); Zimbabwe (17 percent, key imports comprising wheat, rice and soybeans); and Gambia (14 percent, key imports comprising rice, palm oil and sugar). Moreover, several of these countries also have a high and rising concentration in sources of imports (partner CR3s), such as Benin, Eritrea, Liberia and Zimbabwe, which together with high commodity CR3, leaves them particularly exposed to shocks affecting supplies in partner countries.

Figure 22. Trends in commodity and partner dependencies (CR3) in agricultural imports of selected countries in sub-Saharan Africa, from 2000–2002 to 2016–2018



Note: Countries ordered by increasing levels of agricultural imports from left to right (i.e. highest Nigeria).

Source: FAO calculations based on UN Comtrade.

4 Participation of South countries in the multilateral trading system

Key Messages:

- With the entry into force of the WTO Agreement on Agriculture in 1995, members of the WTO committed to not restricting imports of agricultural products by any means other than tariffs and to keep the applied tariff rates within set thresholds determined for each country.
 - On the import side, as countries typically aim to ensure availability of sufficient food at affordable prices, on aggregate, South countries' applied import tariffs are usually set well below the bound tariffs.
 - On the export side, tariff escalation – the practice whereby South countries typically face higher import duties for processed goods than for raw materials within the same category of products – is a key issue in the agricultural negotiations under the Doha Development Agenda.
 - With an interest in shaping the rules of the global trading system, South countries have been taking an active role in the Doha Round negotiations of the WTO, forming and participating through negotiating coalitions based on their trade-related agricultural interests.
-

4.1 The multilateral trading system

Signed in 1947, the General Agreement on Trade and Tariffs (GATT) established a multilateral treaty that aimed to promote international trade by reducing tariffs and trade barriers. One of the major achievements of the Uruguay Round, the last round of negotiations under the GATT (1986–1994), was the establishment of the WTO in 1995 (FAO, 2017b).

With the creation of the WTO, the Agreement on Agriculture (AoA) entered into force on 1 January 1995. The AoA constitutes the only legally binding multilateral treaty regulating agricultural trade (FAO, 2003). The primary objective of the Agreement is to discipline agricultural policies that create distortions to production and trade, including both border and behind-the-border measures (FAO, 2017b).

South countries have been involved in the multilateral trading system since the establishment of the GATT and contributed to the creation of the WTO and the AoA. Seventy-five South countries have been members of the Organization since 1995, the year of its establishment as the result of the Uruguay Round. This group includes several countries in Latin America (Argentina, Brazil, Chile, Costa Rica, Paraguay, Uruguay, etc.), Asia (including India, Indonesia, Malaysia, the Philippines and Thailand) and Africa (including Cameroon, Côte d'Ivoire, Ghana, Kenya and South Africa). Following the establishment of the WTO, 45 additional South countries joined the Organization. Only a few countries are not yet members of the WTO, even though most of them have commenced their accession process. Examples include Algeria, Bosnia and

Herzegovina, Ethiopia, Iran (Islamic Republic of), Iraq, Libya, Serbia, Somalia, South Sudan, Sudan, Syrian Arab Republic and Uzbekistan.

4.1.1 Bound and Applied Tariffs: a comparison between South and North countries

With the entry into force of the AoA, members of the WTO committed to not restricting imports of agricultural products by any means other than tariffs, and to keep their rates within set thresholds determined for each country. These rates are known as *bound tariffs*. Members are allowed to increase or decrease their tariffs (on a non-discriminatory basis) as long as they keep them within the bound levels. The actual tariffs applied by countries are known as *applied tariffs* (FAO, 2017c).

The average bound tariffs are higher for South countries than other WTO Members. In signing the AoA, developing countries received special and differential treatment (SDT), which provided longer periods to implement tariff reductions, as well as more lenient obligations. However, there is almost no difference between South countries and North countries in the applied tariffs, on the aggregate level. In South countries, applied tariffs are usually set well below bound tariffs, leaving a considerable gap between the two rates, colloquially referred to as “water in the tariffs”. This means that South countries are usually more open to trade than their bound tariff rates would suggest, but it also means that – in case of need – they could significantly increase their tariffs while still respecting their WTO commitments (FAO, 2015). South countries’ bound and applied rates for agricultural products, expressed in ad valorem equivalents, are summarized in Table 2.

On average across South countries, applied tariffs were set at 14.4 percent in 2019, while bound tariffs could reach up to 57.0 percent. However, taking the averages of tariffs can hide substantial differences in the way tariffs are applied within these groups.

On aggregate, South countries’ applied agricultural tariffs are highest in South Asia (18.8 percent), followed by the Arab States (16.9 percent), while countries in East Asia and the Pacific show the lowest applied tariffs (12 percent) on average. The applied agricultural tariffs of LDCs, LLDCs and SIDS are in line with the South countries’ average, with values of 14.6 percent, 15.7 percent, and 13.3 percent, respectively, and with a very high degree of water in the tariffs. Among South countries, Egypt is the country with the highest average applied agricultural tariff (65 percent), while Brunei Darussalam is the country with the lowest such tariff (0 percent).

When compared to the bound and applied rates of some North countries, patterns can be mixed. South countries’ average applied tariff rates are particularly low in comparison the Republic of Korea (56.8 percent), Norway (40.4 percent) and Switzerland (32.4 percent); they are in line with those of Canada (15.1 percent) and Japan (15.5 percent); but they are above the level of the European Union (11.4 percent) and much higher than those of New Zealand (1.4 percent) or Australia (1.2 percent).

Although it is important to consider them at an aggregate level, tariffs can differ substantially between the different categories of products (such as dairy or cereals). Moreover, import duties are often higher for processed goods than for raw materials within the same category of products (for example, cocoa beans and chocolate). This specific practice, known as tariff escalation – and commonly applied in North countries – is considered a measure that protects domestic processing industries and discourages the development of

processing activity in the countries where raw materials originate (FAO, 2017c). Tariff escalation is one of the issues within the agricultural negotiations under the Doha Development Agenda (DDA).

Table 2. Average tariffs by region and country (2019)

Total avg.	Bound	Applied	North Countries	Bound	Applied
South countries	57.0	14.4	Australia	3.5	1.2
			Canada	14.3	15.1
Regional groups	Bound	Applied	Iceland	113.7	22.1
Arab States	44.80	16.9	Israel	78.1	12.5
East Asia and the Pacific	39.83	12.0	Japan	19.1	15.5
Europe and Central Asia	17.91	13.0	Korea, Republic of	58.0	56.8
Latin America and the Caribbean	59.5	13.8	New Zealand	6.1	1.4
South Asia	80.7	18.8	Norway	133.6	40.4
Sub-Saharan Africa	72.2	15.1	Russian Federation	10.9	10.5
			Switzerland	47.6	32.4
Other groups	Bound	Applied	United States	4.9	4.7
SIDS	66.2	14.6	European Union	12.7	11.4
LDCs	76.4	15.7			
LLDCs	57.2	13.3			

Source: FAO calculations based on World Tariff Profiles 2020. Further details on the data source can be found at: https://www.wto.org/english/res_e/booksp_e/tariff_profiles20_e.pdf.

Notes: Product coverage is based on Annex 1 of the Agreement on Agriculture. Aggregation was made considering only those countries for which a bound and an applied tariff was presented. When data for 2019 was not available, the 2018 tariffs were taken for reference.

4.2 The state of play at the WTO

The role of the WTO in ensuring transparency, stability and openness in the multilateral trading system has been widely recognized. However, the growing reluctance of some members to deepen trade talks in the context of the Doha Round has hampered the negotiating function of the WTO (FAO, 2020). This was evident at the Eleventh Ministerial Conference of the WTO, held in Buenos Aires, Argentina in December 2017, where countries could not agree to make progress on substantive agricultural or fisheries topics, including domestic support, public stockholding for food security purposes, export restrictions, market access, and the special safeguard mechanism for developing countries (FAO, 2018). Moreover, an impasse in the WTO Dispute Settlement Body (DSB) over the appointment of new members of the Appellate Body

since December 2019 has further weakened the Organization, thus endangering its judiciary function (FAO, 2020).

4.2.1 Trade negotiations

The 2001 Doha Ministerial Declaration reaffirmed the mandate, included in Article 20 of the AoA, to continue the reform process to achieve “the long-term objective of substantial progressive reductions in support and protection”, setting 2005 as a deadline for negotiations. However, negotiations within this round are still ongoing.

South countries have been actively participating in the WTO’s Doha Round of negotiations as their interest in setting global trading rules has been growing, alongside their participation in international agricultural trade. However, conflicting positions among countries exist. These positions are reflected in the WTO discussions, where members have formed negotiating coalitions based on their trade-related agricultural interests. In fact, South countries, depending on their status as either agri-food exporter or importer, their interests for special and differential treatment, and the degree of openness that they are trying to achieve from WTO partners (developed and/or developing) belong to different negotiating groups (WTO, 2021a).

The many negotiating coalitions are detailed in Box 11.

Box 11. South countries: groups in the agricultural negotiations at the WTO

- The ACP group: is the group of the African, Caribbean and Pacific States. Its main priority in the negotiations is the issue of “preference erosion”, mainly in the European Union, as they fear that the reduction of tariffs stemming from a new Agreement at the WTO will limit or even eliminate the preferential margin that they enjoy now based on the ACP/European Union Agreements.
- Tropical products group: is a coalition of developing countries seeking greater market access for tropical products. This group includes exclusively Latin American and Caribbean countries (Bolivia (Plurinational State of), Colombia, Costa Rica, Ecuador, Guatemala, Nicaragua, Panama and Peru) with strong interests relating to the trade of bananas and other tropical products.
- G-20: South countries with strong offensive interests, mainly net agricultural exporters such as Argentina, Bolivia (Plurinational State of), Brazil, Chile, Guatemala, India, Indonesia, Mexico, Paraguay, Peru, South Africa and Uruguay, but also countries like China, Cuba, Egypt, Nigeria, Pakistan, the Philippines and Venezuela (Bolivarian Republic of), which are agri-food net importers, belong to the G-20 WTO negotiating group. Some of them are also members of the broader Cairns group of exporters.
- G-33: is a group of South countries with large populations of smallholder farmers pressing for flexibility for developing countries to undertake limited market opening in agriculture. Many of the countries also belong to the “small, vulnerable economies” (SVE) group.
- Pacific Group: is a group which includes members of the Pacific Islands Forum.
- Cairns group: includes both North and South countries, and is a coalition of agricultural exporting nations

advocating for agricultural trade liberalization. South countries participating in this coalition include Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Uruguay and Viet Nam.

- SVE group: includes 26 developing country Members seeking greater flexibility in the negotiations and enhanced special and differential treatment for their economies.
- Low-income “economies in transition” group: is made up of five countries (Albania, Armenia, Georgia, Kyrgyzstan and the Republic of Moldova) seeking to secure the same treatment as LDCs.
- Cotton-4 West African coalition: includes five countries (Benin, Burkina Faso, Chad, Côte d’Ivoire and Mali) seeking cuts in cotton subsidies and tariffs.
- LDCs: the group of least developed countries is a negotiating group within the WTO, with 36 members.

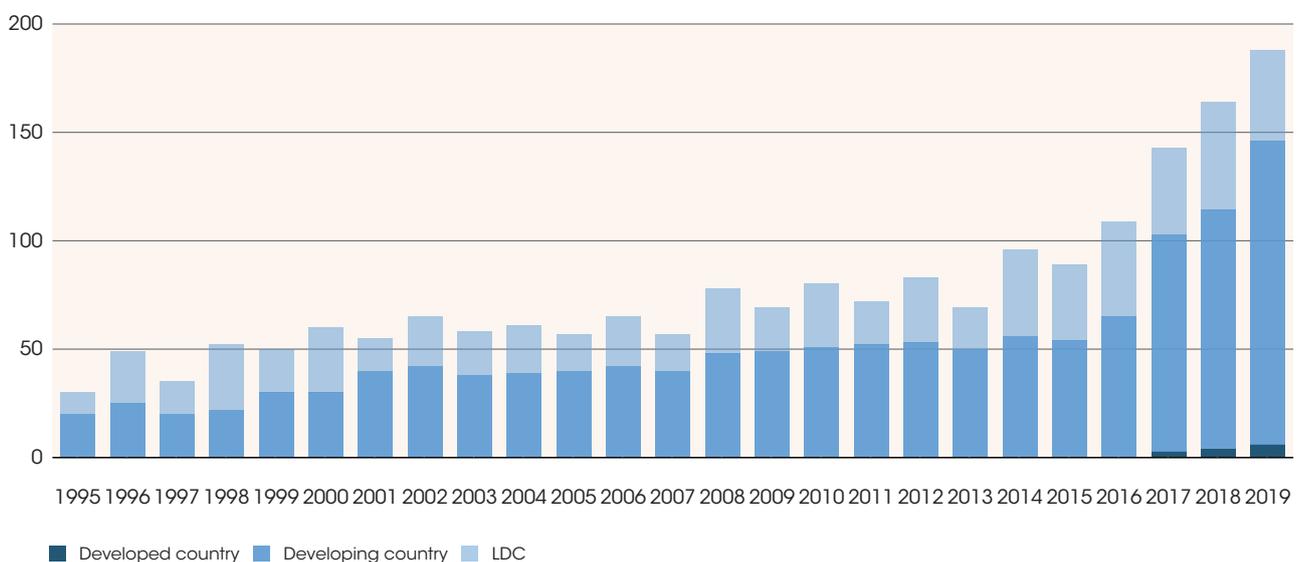
Source: WTO, 2021a.

4.2.2 Transparency

Many WTO Members have not fulfilled their transparency obligations to the WTO in a timely way. According to some WTO Members, such a practice makes it impossible to monitor compliance with WTO rules and seek rule enforcement (European Commission, 2018).

In this regard, it should be noted that a large number of notifications, mainly from South countries, remained pending for the 1995 to 2019 period. This is particularly the case for domestic support measures (34 percent) and export subsidies (31 percent) (WTO, 2021b). See Figure 23.

Figure 23. Number of outstanding notifications per type of Member (1995–2019)



Source: WTO, 2021b.

4.2.3 Dispute settlement

The WTO Dispute Settlement is a central pillar of the multilateral trading system. It provides security and predictability to the multilateral trading system, ensures the rights and obligations of WTO Members in the framework of the WTO Agreements, and clarifies such rights and obligations through interpretation (WTO, 2004).

According to Glauber and Xing (2020), out of 593 disputes filed by Members between 1995 and 2019, 84 cases (14 percent) cited the AoA in the request for consultations. In the first five years following the implementation of the AoA, cases were more frequent. However, the frequency of filings has declined since then, with only eight disputes involving the AoA filed between 2015 and 2019,¹³ following a similar general trend at the DSB (Table 3).

As of July 2021, South countries have been involved 44 times as respondents, accounting for around 50 percent of the overall initiated cases.¹⁴ Among South countries, India received a relatively higher number of requests for consultation (10), followed by Indonesia (7), China (6), Mexico (4) and Turkey (3). By contrast, only a little over 30 percent of requests for consultation came from South countries. Brazil was the most active in this regard, being involved as a complainant in 9 disputes, followed by Guatemala (6) and Mexico (5) (WTO, 2021c).

Table 3. Average number of initiated cases

Total avg.	1995–1999	2000–2004	2005–2009	2010–2014	2015–2019
All disputes	185	139	78	86	105
Agricultural disputes	33	22	12	10	7
Agriculture as a percent of total	17.8	15.8	15.4	11.6	6.7

Source: Glauber and Xing, 2020

¹³ Only one case was filed between 2020 and 2021.

¹⁴ Numbers of North countries include cases filed against Belgium, Czechia, Hungary, Poland, Romania, and the Slovakia Republic.

5 Participation in regional trade agreements

Key Messages:

- Along with multilateral agreements and negotiations, both South and North countries are increasingly participating in RTAs, including mega RTAs involving countries that account for significant shares of global trade. Since the establishment of the WTO, the number of RTAs notified to the WTO has grown from approximately 50 to 350 that are currently in force.
 - By reducing the number of participating countries, RTAs can help achieve consensus on common priorities, promoting greater levels of integration and trade creation. However, RTAs can also lead to trade diversion and preference erosion and contribute to a “spaghetti bowl” phenomenon in which various rules, tariffs and institutional arrangements governing different RTAs apply at the same time.
 - Participation in an RTA should complement multilateral trade agreements, for countries to realize the full benefits of market participation for agricultural development and economic growth.
-

5.1 Regional trade agreements

Over the past decades, 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). RTAs are “trade agreements of a mutually preferential nature” (WTO, 2006). They include bilateral, regional, or inter-regional free trade agreements (FTAs), economic unions, customs union, and common markets.¹⁵

Since the establishment of the WTO, and parallel to the multilateral trade negotiations, the number of RTAs notified to the WTO has grown from approximately 50 to 350 currently in force (WTO, 2021d). One of the main reasons for the global success 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’s multilateral rules (UNCTAD, 2014a).

For instance, Members participating in the Single Market of the Caribbean Community, or the Central American Common Market took important steps to fully liberalize agricultural trade tariffs (CELAC, 2016). Likewise, to enhance better cooperation on non-tariff measures (NTMs), the Comprehensive Economic and Trade Agreement between Canada and the European Union, imposes rules on the application of NTMs, mainly by strengthening communication and coordination between members in this area (FAO, 2017b). To avoid disruption in trade flows, some RTAs (e.g. the Chile-European Free Trade Association RTA and Mexico-Japan RTA) go further than the WTO disciplines by prohibiting export restrictions, without any

¹⁵ FTAs and Custom Unions are allowed under Article XXIV of GATT, which includes a special exception to the WTO’s fundamental principle of non-discrimination among WTO Members. Moreover, Paragraph 2(c) of the 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries – also known as “Enabling Clause” – allows for trade arrangements covering trade in goods between developing countries.

exceptions being mentioned (FAO, 2017b). Likewise, to deal with sudden increases in import volumes stemming from tariff liberalization, some RTAs in the Americas, for example the Dominican Republic-Central America FTA (CAFTA-DR), include disciplines for the application of the agricultural safeguards (Shearer, Almeida, and Gutierrez, 2009).

5.1.1 Countries' participation in RTAs

The increasing role played by RTAs in driving trade liberalization is reflected in the greater participation of developed and developing countries alike in RTAs, as seen from the notifications to the WTO. Table 4 shows the 68 RTAs containing agricultural provisions that were notified to the WTO between June 2018 and June 2021. South countries have been particularly active in negotiating and concluding RTAs. In fact, the vast majority of the 68 RTAs involves at least one South country.

Table 4. RTAs notified to the WTO from June 2018 to June 2021

RTA	Date of Notification
United Kingdom - Mexico	26-Jun-21
United Kingdom - Serbia	18-May-21
United Kingdom - Albania	03-May-21
United Kingdom - Jordan	03-May-21
Korea, Republic of - Central America	15-Apr-21
India - Mauritius	15-Apr-21
Pacific Agreement on Closer Economic Relations Plus (PACER Plus)	08-Apr-21
Namibia - Zimbabwe	24-Mar-21
United Kingdom - Ghana	04-Mar-21
ASEAN - Hong Kong, China	10-Feb-21
EU - United Kingdom	29-Jan-21
Indonesia - Australia	27-Jan-21
Ukraine - Israel	13-Jan-21
United Kingdom - SACU and Mozambique	08-Jan-21
China - Mauritius	05-Jan-21
United Kingdom - Kosovo	31-Dec-20
United Kingdom - Lebanon	31-Dec-20

RTA	Date of Notification
United Kingdom - Morocco	31-Dec-20
United Kingdom - Pacific States	31-Dec-20
United Kingdom - Palestine	31-Dec-20
United Kingdom - Korea, Republic of	31-Dec-20
United Kingdom - Ecuador and Peru	31-Dec-20
United Kingdom - CARIFORUM States	31-Dec-20
United Kingdom - Central America	31-Dec-20
United Kingdom - Chile	31-Dec-20
United Kingdom - Côte d'Ivoire	31-Dec-20
United Kingdom - Eastern and Southern Africa States	31-Dec-20
United Kingdom - Faroe Islands	31-Dec-20
United Kingdom - Georgia	31-Dec-20
United Kingdom - Norway and Iceland	31-Dec-20
United Kingdom - Israel	31-Dec-20
United Kingdom - Switzerland - Liechtenstein	31-Dec-20
United Kingdom - Tunisia	31-Dec-20
United Kingdom - Ukraine	31-Dec-20
United Kingdom - Cameroon	31-Dec-20
United Kingdom - Egypt	31-Dec-20
United Kingdom - Japan	31-Dec-20
United Kingdom - Colombia	31-Dec-20
United Kingdom - Singapore	31-Dec-20
United Kingdom - Turkey	31-Dec-20
United Kingdom - Viet Nam	31-Dec-20
United Kingdom - Canada	31-Dec-20
United Kingdom - Kenya	31-Dec-20
United Kingdom - Moldova, Republic of	31-Dec-20
United Kingdom - North Macedonia	31-Dec-20
United States-Mexico-Canada Agreement (USMCA/CUSMA/T-MEC)	16-Sep-2020

RTA	Date of Notification
EU – Viet Nam	13-Jul-2020
Peru - Australia	24-Jun-2020
EU - Singapore	1-Apr-20
Chile - Indonesia	1-Apr-20
Eurasian Economic Union (EAEU) - Iran	31-Jan-20
Hong Kong, China - Australia	17-Jan-20
Indonesia - Pakistan	12-Nov-19
EU - Armenia	23-Aug-19
Mexico - Bolivia, Plurinational State of	23-Jul-19
Ecuador - Mexico	23-Jul-19
Mexico - Paraguay	23-Jul-19
Brazil - Mexico	23-Jul-19
Mexico - Cuba	23-Jul-19
Argentina - Mexico	23-Jul-19
Morocco - United Arab Emirates	19-Jun-19
Southern Common Market (MERCOSUR) - Israel	29-Mar-19
Hong Kong, China - Georgia	12-Feb-19
EU - Japan	14-Jan-19
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	20-Dec-18
EFTA - Philippines	26-Oct-18
Peru - Honduras	17-Oct-18
Turkey - Singapore	14-Sep-18

Source: WTO. 2021d. *Regional trade Agreements Database*. WTO. [Accessed 30 June 2021]. <http://rtais.wto.org/UI/PublicAllRTAList.aspx>.

Note: References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999).

5.1.2 Mega RTAs

Traditional RTAs are typically concluded between natural trading partners, such as neighbouring or historically linked countries. However, this has been changing rapidly, with new approaches such as RTAs among countries from different continents as well as mega RTAs (agreements that involve parties accounting for major shares of world trade) (FAO, 2016b).

Many South countries are involved in such agreements today. Examples include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam; the Regional Comprehensive Economic Partnership (RCEP) between Australia, Brunei, Cambodia, China, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, the Republic of Korea, Thailand and Viet Nam; the Pacific Alliance consolidating bilateral relations between Chile, Colombia, Mexico and Peru; and the African Continental Free Trade Area (AfCFTA), which covers all of continental Africa (see Box 12).

Box 12. The African Continental Free Trade Area (AfCFTA)

The decision to establish a Continental Free Trade Area was approved by the 18th ordinary Session of Assembly of the African Union Heads of State and Government, held in Addis Ababa, Ethiopia in January 2012. This initiative is a flagship project of Agenda 2063 of the African Union – Africa's own development vision. As of September 2021, 38 African states have ratified the AfCFTA (AUC, 2021).

AfCFTA aims at creating, through successive rounds of negotiations, a single market for goods and services, facilitated by the movement of persons to deepen the economic integration of the African continent and to lay the foundations for the establishment of a continental customs union at a later stage. This will be achieved through the gradual removal of tariffs on at least 90 percent of tariff lines.¹⁶ It is noted that while tariffs in Africa are on average rather low (6.1 percent), there is considerable variation across countries and sectors with 1 percent of tariff lines accounting for 74 percent of imports in the average African country (World Bank, 2020). Through the implementation of the AfCFTA, the reduction of tariffs on these products therefore has significant potential to increase intra-regional trade. Overall, intra-regional trade is estimated to expand by over 80 percent (IMF, 2019). This is beneficial in that intra-regional exports are expected to be more diversified and embed greater technological content than Africa's exports to the rest of the world (IMF, 2019).

The AfCFTA will overlap with several regional economic communities (RECs) already in force in Africa. These include, the Common Market for Eastern and Southern (COMESA), East African Community (EAC), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC), the Intergovernmental Authority on Development (IGAD), the Economic Community of Central African States (ECCAS), the Community of Sahel-Saharan States (CEN-SAD), and the Arab Maghreb Union (AMU). There are also several other unions and communities with greater levels of economic integration, such as the Southern African Customs Union (SACU), the West African Economic and Monetary Union (WAEMU), and the Economic and

¹⁶ The 7th Meeting of the African Union Ministers of Trade held from 12–13 December 2018 agreed on the designation of sensitive products and exclusion list at 7 percent and 3 percent, respectively. This represents a level of ambition that is no less than 90 percent of total trade (Trapca, 2019).

Monetary Community of Central Africa (CEMAC). One important issue is how the AfCFTA will coordinate and build on these existing regional structures. It will be critical to learn from the successes and challenges in achieving economic integration, including on issues of harmonization of standards and procedures, overlapping memberships, duplicity of mandates and similarities in production structures.

To assess the potential trade-creating impact of the AfCFTA, it is important to ascertain whether African countries are natural trading partners. Only 8 percent of total African exports are directed toward Africa, suggesting that there are important constraints (for instance, high trade costs) to intra-regional trade (World Bank, 2020). As for agriculture, 40 percent of Africa's agricultural products are exported to the European Union, while intra-African agricultural trade is regionally concentrated, mostly centred around South Africa, which is both the major exporter and importer. If one excludes South Africa, the share of intra-African agricultural trade is rather low, at about 12 percent (Viljoen, 2018).

However, there are significant differences by product. For instance, the 2021 Africa Agriculture Trade Monitor (Bouet *et al.*, 2021) finds that while the share of intra-African imports in total African imports is low for cereals, it is high for some fruits and vegetables such as tomatoes and citrus fruit. It also shows that the number of trade links between African countries grew substantially between 2003 and 2019, for a selection of ten key agricultural products (rice, maize, wheat, beans, potatoes, onions, tomatoes, bananas and plantains, citrus fruit, and apples). However, the report also highlights significant unexploited potential as measured by the network analysis. While rising incomes are fuelling demand for diversified diets in the region, meeting this demand with imports from within the African region will require significant efforts in overcoming supply-side constraints, such as low levels of agricultural productivity and infrastructure gaps.

5.2 Opportunities and challenges¹⁷

RTAs can lead to trade creation¹⁸ through market liberalization among the RTA parties because the reductions in trade barriers induced by the RTA facilitate or encourage trade among the parties. However, it can also lead to trade diversion, when the reduction – or elimination – of tariffs among RTA parties favours less economically efficient producers, as it shifts imports from low-cost countries, which are non-participants in the RTA, to higher-cost RTA exporters.

RTAs can also lead to preference erosion, which occurs when the lower tariffs between RTA parties result in non-participating developing countries losing the competitive advantage they had through preferential market access schemes. For example, many developed countries or regions offer preferential market access to LDCs: the difference between the tariff that applies to LDC exports, in the absence of the preferential schemes, and the actual tariff charged on the basis of these schemes is the preferential margin. When these developed countries or regions participate in RTAs and open their markets to other, non-LDCs, this preferential margin is reduced and therefore the LDCs' preferences are eroded.

The marginalization of weaker and more vulnerable developing countries is also a risk. In fact, over the past two decades, through global or regional agreements, tariffs have been reduced in many sectors, including

¹⁷ Based on FAO, 2017b.

¹⁸ Occurs when tariff reduction within a regional trade agreement displaces a member's higher-cost production with lower-cost imports from another member.

agriculture. However, in some cases, tariff peaks are still maintained. This could be of particular concern for the developing countries whose exports are concentrated in a narrow range of products and are destined for a small number of trading partners. In this case, there could indeed be risks of marginalization of weaker and more vulnerable developing countries that are not participating in major RTAs.

Another issue concerns the regulatory aspects of RTAs. These include the adjustment difficulties and costs of harmonization towards more rigorous regulatory standards for both RTA members and external exporters (particularly the developing countries among them); increased transaction and administration costs, particularly for developing-country customs authorities and firms, which are generally less able to cope with multiple, complex and overlapping rules of origin and regulatory standards among different RTAs; and the locking-in of regulatory divergences among different “families” of RTAs, and risks of incoherence between them and the multilateral trading system.

5.2.1 The spaghetti bowl: when too many RTAs apply at the same time

By reducing the number of participating countries, RTAs can make it possible to achieve the specific market access goals of partners, hence tackling asymmetries between partners with specific provisions and incorporating clauses for deeper economic integration that goes beyond trade. However, a trade architecture where various RTAs apply concurrently may create a complex regulatory structure that affects trade flows.

The proliferation of RTAs, where countries extend preferences in different trading arrangements, further adds to the “spaghetti bowl” phenomenon, in which various rules, tariffs and institutional arrangements apply at the same time (FAO, 2017d). As an example, implementing rules of origin can be particularly challenging when countries belong to multiple RTAs. Rules of origin refer to the criteria used to determine where a product was made, and these are used for determining access to the markets of RTA parties, by identifying whether goods qualify for preferential treatment. In many RTAs, the rules differ depending on the product in question, specifically: whether the goods were wholly obtained in the country of origin, or whether there was substantial transformation of the good in the country of origin.¹⁹ Each RTA can imply separate certification processes to demonstrate compliance with such rules, which can add to the regulatory complexity that countries face in benefiting from the preferential treatment accorded through RTAs.

Another practical example on how the application of multiple agreements may jeopardize a country’s trade policy structure is offered in Box 13.

¹⁹ Cumulation is a concept used under some RTAs which widens the definition of originating products, whereby producers in one country can source parts and inputs from other countries without losing the originating status of their product. However, there is no universal way in which cumulation is treated in RTAs (some contain provisions for bilateral cumulation, others for diagonal, and yet others for full cumulation, or a combination of these types).

Box 13. Agricultural trade liberalization through RTAs: the case of Latin America and the Caribbean

Latin America and the Caribbean (LAC) has made progress in reducing barriers to intra-regional trade thus boosting trade flows within the region (UNCTAD, 2014b). For instance, LAC countries created four customs unions. These are the Southern Common Market (MERCOSUR), the Caribbean Community (CARICOM), the Central American Common Market (CACM), and the Andean Community (CAN) (IICA, 2019). Within these groups, significant tariff reduction has been achieved (CELAC, 2016). Some progress has also been made on non-tariff measures. There are strong institutional frameworks for cooperation on sanitary and phytosanitary measures, either within the custom unions, as in the case of CARICOM, or within other sub-regional bodies, like the International Regional Organization for Plant and Animal Health (OIRSA). Beyond the sub-regional groups, however, there have not been any significant efforts to boost intra-regional trade (CELAC, 2016). The Pacific Alliance, which involves Chile, Colombia, Mexico, and Peru, is one of the few RTAs that go beyond the sub-regional groupings. As depicted by Figure 24, the majority of RTAs are concluded between countries within sub-regions, with only a few agreements between Central American countries and the major trading countries, such as Chile and Mexico.

Figure 24. RTAs within the LAC region, as notified to the WTO

		MERCOSUR					Pacific Alliance				Central American Common Market (CACM)											
							Andean Community															
		ARG	BRA	PRY	URY	VEN	BOL	ECU	COL	PER	CHL	MEX	CUB	PAN	CRI	SLV	GTM	HND	NIC	DOM	BLZ	ATG
MERCOSUR	ARG	*																				
	BRA		*																			
	PRY			*																		
	URY				*																	
	VEN				*																	
Pacific Alliance	Andean Community	BOL					*															
		ECU						*														
		COL							*													
		PER								*												
	CHL									*												
	MEX									*												
	CUB										*											
Central American Common Market (CACM)	PAN											*										
	CRI												*									
	SLV													*								
	GTM														*							
	HND															*						
	NIC																*					
	DOM																		*			
Caribbean Community (CARICOM)	BLZ																		*			
	ATG																			*		
	BHS																					
	BRB																					
	DMA																					
	GRD																					
	GUY																					
	HTI																					
	JAM																					
	LCA																					
	KNA																					
	VCT																					
	SUR																					
	TTO																					

		Caribbean Community (CARICOM)											
		BHS	BRB	DMA	GRD	GUY	HTI	JAM	LCA	KNA	VCT	SUR	TTO
MERCOSUR	ARG	Orange											
	BRA												
	PRY	Orange											
	URY												
	VEN	Orange											
Pacific Alliance	Andean Community	BOL	Orange										
		ECU											
		COL	Orange										
		PER											
		CHL	Orange										
		MEX											
		CUB	Orange										
Central American Common Market (CACM)	PAN	Orange											
	CRI												
	SLV												
	GTM												
	HND												
	NIC												
	DOM	Orange											
Caribbean Community (CARICOM)	BLZ	Green											
	ATG												
	BHS												
	BRB												
	DMA												
	GRD												
	GUY												
	HTI												
	JAM												
	LCA												
	KNA												
	VCT												
	SUR												
	TTO												

Note: Green represents an existing RTA between blocks and countries; orange represents the lack of such an RTA.

Source: FAO, 2020.

6 Conclusions

Growing levels of South-South trade – both within and between the six South country regions – contribute to diversifying trading partners, which reduces countries' exposure and vulnerability to exogenous shocks. In fact, over the last two decades, on aggregate, most South country regions have witnessed a reduction in the concentration of their trading partners, in both exports and imports. On the export side, it is important to take advantage of growing market opportunities and promote South countries' market access by providing complementary policy measures to improve competitiveness. These include investments in research and development, rural and market infrastructure, information and communication technologies, skills upgrading, and strengthened governance and institutional structures. On the import side, and particularly in countries that depend heavily on imports to meet their food demand, trade facilitation practices should be implemented to reduce regulatory barriers and improve trade efficiency. At the same time, it is crucial that the potential risks of trade openness for incomes, income distribution and inequality are identified and properly managed, for instance, through targeted social protection, labour market and other upgrading and upskilling measures.

Several drivers are propelling the increasing participation of South countries in international markets. In addition to growing populations, incomes and rates of urbanization, declining transport costs and increasing participation in international trade agreements are key contributing factors. Many South countries have been participating in the multilateral trading system since the establishment of the WTO in 1995. The decline in import tariffs that resulted from this and the fact that applied tariffs continued to be well below bound tariff levels for agricultural products have contributed to trade growth. However, tariffs can differ substantially between different categories of products, and these tend to be higher for processed goods than for raw materials in the same category of products. This practice of tariff escalation is commonly applied in North countries and continues to be an important issue in the Doha Round negotiations of the WTO. It is important that South countries continue to engage in these negotiations and seek to achieve substantial improvements in market access for their products, in keeping with the long-term objective of the Doha Development Round.

At the same time, globally, countries are increasingly participating in RTAs. Lower tariffs and harmonization of standards and procedures among signatories of RTAs can promote the integration of developing countries in different stages of the value chains, leading to greater opportunities for participating in markets and boosting trade. Provisions on agriculture in RTAs can therefore complement agricultural negotiations in the multilateral trading system. At the same time, however, there are concerns that RTAs can lead to trade diversion and preference erosion, along with the risks of marginalizing weaker and more vulnerable developing countries. The simultaneous participation of countries in multiple RTAs can also add regulatory complexity. Participation in RTAs should therefore be complemented by promoting the multilateral trading system, to support countries in realizing the full benefits of increased market participation for agricultural development and economic growth.

Finally, this study highlighted the vulnerabilities that individual countries or groups of countries face, particularly due to the concentration of their exports in a few products. Promoting export diversification should therefore be a key policy priority in these countries, which in turn requires addressing supply-side constraints that limit the development and export of other competitive products. Such supply-side constraints can also mean that countries increasingly rely on imports to meet growing demand for diversified foods. For instance, LDCs as a group have remained net importers of agrifood products over the last two decades. In these countries, growing populations and rising incomes have boosted imports of food and agricultural products, as sluggish agricultural productivity growth has prevented production from keeping pace with this rising demand. Poor infrastructure, lack of access to inputs and finances, and low levels of investment and adoption of productive technologies, among others, have limited the potential for productivity growth. In these countries, policy measures to promote sustainable production and productivity growth are crucial. These measures may include training and extension, programmes to enhance access to high quality inputs and adequate financial services, and investments in rural infrastructure and marketing systems, all of which can help crowd-in private investments.

In this regard, South-South and Triangular Cooperation can play a crucial role as an effective instrument for catalyzing economic development by fostering the exchange of innovation and good practices and expanding market opportunities across countries with similar priorities and shared development objectives, such as those reflected in the SDGs.

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Annex A. Methodological note

There is no universal definition of “South” countries, with studies adopting different classifications depending on their objectives. For instance, a study on the drivers of expanding trade integration between low- and middle-income countries, defined South countries using the World Bank’s classification of low- and middle-income countries with per capita gross national income not exceeding USD 9 075 in 2003 (Kowalski and Shepherd, 2006). The United Nations Conference on Trade and Development (UNCTAD) South-South Trade Information System, which was conceived to deal with missing values in trade data, defined “South” as those countries that are “members of the Group of 77 and China, plus other countries that claimed a developing country status in the framework of the World Trade Organization, plus those developing territories that are reported to the UN Comtrade” (Shirotori and Molina, 2009).

Since this analysis aims to focus on regional patterns of trade, in this study, “South countries” are defined as all countries and territories that are classified among “Developing Regions” by the United Nations Development Programme (UNDP, 2021). These include “Arab States” (20 countries or territories); “East Asia and the Pacific” (25 countries)²⁰; “Europe and Central Asia” (17 countries); “Latin America and the Caribbean” (33 countries); “South Asia” (9 countries); and “sub-Saharan Africa” (46 countries) (see Table A.1. for a full list by region). While classified as “developing” by UNDP, these regions nevertheless include some high-income countries and territories (Table A.2). All other countries and territories not classified within the UNDP developing regions (54 in total), are classified as “North countries” in this study.²¹

Agricultural products include all products covered by the World Trade Organization (WTO) Agreement on Agriculture (AoA), Annex 1 (Table A.3).

The source of all trade data is UN Comtrade. The key data processing elements include outlier detection, error correction and mirroring of data for non-reporting countries or non-reported flows.

²⁰ UNDP Developing Regions classification for East Asia and the Pacific also includes Micronesia (Federated States of), however, this is not included in this study due to lack of available trade data.

²¹ Capturing all remaining countries, the North countries category therefore also includes some countries and territories which may otherwise be classified under other regional groups (e.g. Republic of Korea, China, Hong Kong SAR, China, Macao SAR, and Taiwan Province of China, from East Asia and Pacific; and the Russian Federation, from Europe and Central Asia).

Table A.1. List of countries and territories by region

Region	Countries
South countries (150)	
Arab States (20)	Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Palestine, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen
East Asia and the Pacific (25)	Brunei Darussalam, Cambodia, China, Democratic People's Republic of Korea, Fiji, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Marshall Islands, Mongolia, Myanmar, Nauru, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Viet Nam
Europe and Central Asia (17)	Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Montenegro, North Macedonia, Republic of Moldova, Serbia, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan
Latin America and the Caribbean (33)	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 Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela (Bolivarian Republic of)
South Asia (9)	Afghanistan, Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan, Sri Lanka
Sub-Saharan Africa (46)	Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Equatorial Guinea, Eritrea, Eswatini, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, South Sudan, Togo, Uganda, United Republic of Tanzania, Zambia, Zimbabwe
North Countries (54)	
	Andorra, Anguilla, Aruba, Australia, Austria, Belgium, Bermuda, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Cook Islands, China, Hong Kong SAR, China, Macao SAR, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, French Polynesia, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Monaco, Netherlands, New Caledonia, New Zealand, Norway, Poland, Portugal, Republic of Korea, Romania, Russian Federation, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, Turks and Caicos Islands, United Kingdom of Great Britain and Northern Ireland, United States

Table A.2. Number of countries and territories included in the analysis, by UNDP “Developing Regions” and World Bank country income classifications

		World Bank Income Classification						
		Low Income	Lower Middle Income	Upper Middle Income	High Income	N/A	Total	
UNDP Developing Regions	South countries	31	45	55	18	1	150	
	Arab States (AS)	3	5	5	6	1	20	
	East Asia and the Pacific (EAP)	1	12	9	3		25	
	Europe and Central Asia (ECA)	1	4	12			17	
	Latin America and the Caribbean (LAC)	1	4	20	8		33	
	South Asia (SA)	2	4	3			9	
	Sub-Saharan Africa (SSA)	23	16	6	1		46	
	North countries			3	49	2	54	
Total	31	45	58	67	3	204		

Table A.3. Commodity groups included in the analysis

HS Chapter	Description
01	Live animals
02	Meat and edible meat offal
04	Dairy produce; bird eggs; natural honey; edible products of animal origin, not elsewhere specified or included
05	Products of animal origin, not elsewhere specified or included
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage
07	Edible vegetables and certain roots and tubers
08	Edible fruit and nuts; peel of citrus fruit or melons
09	Coffee, tea, maté and spices
10	Cereals

HS Chapter	Description
11	Products of the milling industry; malt; starches; inulin; wheat gluten
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder
13	Lac; gums, resins and other vegetable saps and extracts
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included
15	Animal or vegetable fats and oils and their cleavage products prepared edible fats; animal or vegetable waxes
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates
17	Sugars and sugar confectionery
18	Cocoa and cocoa preparations
19	Preparations of cereals, flour, starch or milk; bakers' wares
20	Preparations of vegetables, fruit, nuts or other parts of plants
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
23	Residues and waste from the food industries; prepared animal feed
24	Tobacco and manufactured tobacco substitutes
29	Organic chemicals, including only 2905.43 (mannitol) and 2905.44 (sorbitol)
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations, including only 33.01 (essential oils)
35	Albuminoidal substances; modified starches; glues; enzyme, including only 35.01 to 35.05 (albuminoidal substances, modified starches, glucose)
38	Miscellaneous chemical products, including only
38	Miscellaneous chemical products, including only 3809.10 (finishing agents) and 3823.60 (sorbitol n.e.p.)
41	Raw hides and skins (other than furskins) and leather, including only 41.01 to 41.03 (hides and skins)
43	Furskins and artificial fur; manufactures thereof, including only 43.01 (raw furskins)
50	Silk, including only 50.01 to 50.03 (raw silk and silk waste)
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric, including only 51.01 to 51.03 (wool and animal hair)
52	Cotton, including only 52.01 to 52.03 (raw cotton, waste and cotton carded or combed)

HS Chapter	Description
53	Other vegetable textile fibers; paper yarn and woven fabric of paper yarn, including only 53.01 and 53.02 (raw flax and raw hemp)

Notes: "Agricultural products" in this study include those products covered by the World Trade Organization Agreement on Agriculture, Annex 1, by reference to the harmonised system (HS) of product classification. For HS chapters 29 to 53, only specific HS 4 or HS 6 level product codes are included in the analysis, as per the WTO AoA definition, and as identified in the table.

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