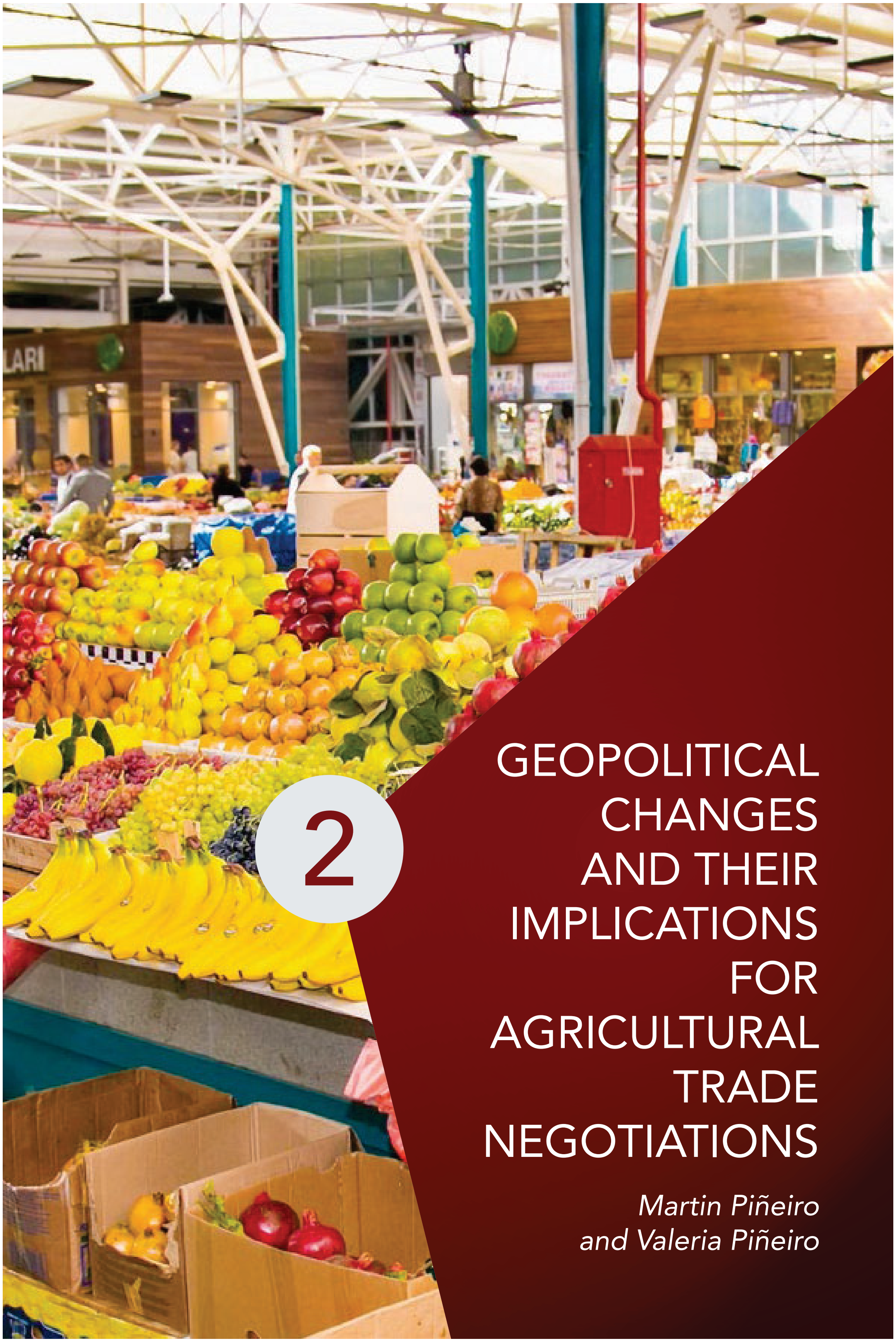

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GEOPOLITICAL CHANGES AND THEIR IMPLICATIONS FOR AGRICULTURAL TRADE NEGOTIATIONS

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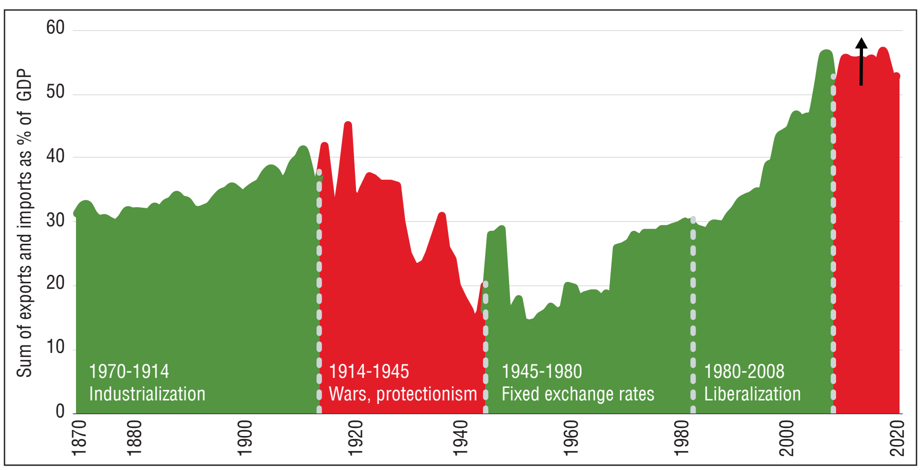
INTRODUCTION: TRENDS IN GLOBAL TRADE

The dissolution of the Soviet Union (USSR) in the 1990s marked a significant geopolitical shift, resulting in the clear and undisputed preeminence of the United States (USA) in global affairs. This new dominance was bolstered by the support of its closest allies, primarily the European Union (EU), Japan, Australia, and a few others.

In the wake of this geopolitical shift, a new phase of global economic interdependence emerged characterized by a growing reliance on trade and the development of global value chains, which connected production processes across multiple countries. This collaborative approach to production rapidly accelerated at the beginning of the 21st century and played a crucial role in the rapid economic development of countries like China and the Republic of Korea.

To illustrate this transformation, Figure 2.1 shows a rapid growth in trade starting in the 1970s and lasting about four decades until the financial crisis of 2007/2008. After the crisis, global trade as a share of GDP stabilized up through the present day.

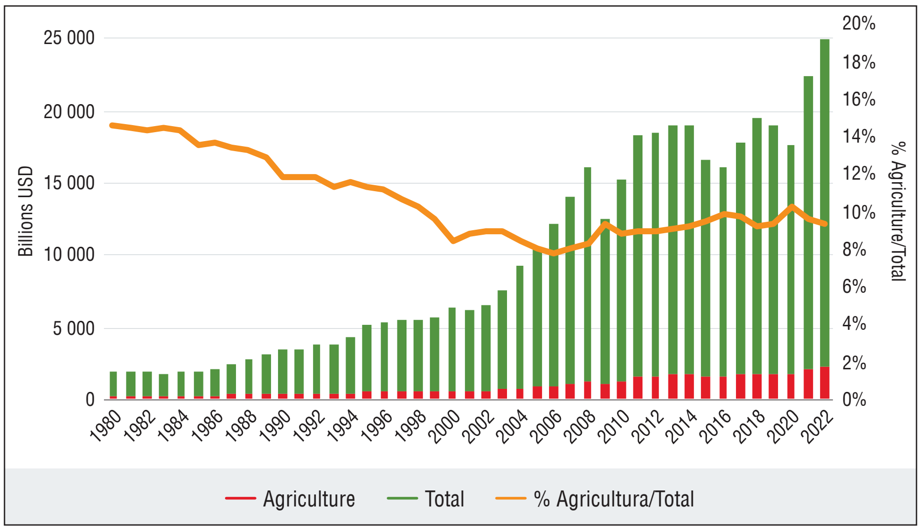
FIGURE 2.1 The phases of Global Integration
Sum of exports and imports as percentage of GDP



Note: The Figure is a replication of Sample's composition changes over time. Source: Peterson Institution for International Economics; Jordà-Scholarick-Taylor Macrohistoric Database; Pen World Table (10.0); World Bank; IMF Staff Calculations.

In contrast, Figure 2.2 highlights that agricultural trade, after years of decreasing as a proportion of total trade, stabilized around 2006. This stabilization was mainly due to the rapid growth in food demand by China. Moreover, Figure 2.2 indicates a slight increase in agricultural trade as a proportion of total trade over the last 15 years. This trend suggests the greater stability of food demand and the trading needs that result from this demand, even amidst economic instability such as the recent global financial crisis and the Covid-19 pandemic.

FIGURE 2.2 ▶ Evolution of total trade and global agriculture trade. *Billions of USD – CUCI Rev. 3. 1980-2022*



Source: Own elaboration based on estimates from World Trade Organization.

While the initial weakening of global trade was attributed to the 2007/2008 global financial crisis and the Covid-19 pandemic, it has now become clear that the more significant and lasting changes are the result of profound global economic transformations, which began during those years and have since accelerated.

These global economic transformations have led to significant changes in the geopolitical landscape, driven by two key factors. First, the escalating competition between China and the USA is reshaping international relations across trade, security, and diplomatic alliances. Second, technological advancements and the imperative response to climate change are propelling a sweeping energy transition away from conventional fossil fuels towards more sustainable alternatives.

As these changes unfold, their impact on global trade becomes increasingly evident. Trade relationships are evolving to align with shifting geopolitical realities and the imperative for a sustainable energy transition. These shifts extend beyond economic considerations, influencing international cooperation and diplomacy.

The institutional frameworks governing global trade must adapt to navigate this new reality. Traditional structures and agreements may need recalibration to accommodate the nuances introduced by geopolitical realignments and sustainability imperatives. This adaptation process will involve negotiations, diplomatic initiatives, and collaborative efforts to establish frameworks fostering fair, inclusive, and sustainable global trade.

In summary, the dynamics driven by geopolitical shifts, technological advancements, and climate imperatives are ushering in a new era in international trade. Navigating this transformative landscape requires a proactive and adaptive approach in constructing trade relationships and shaping institutional frameworks. As the global community grapples with these changes, the challenge lies not just in understanding their immediate implications but also in charting a course for resilience and trade inclusivity in the face of an ever-changing world order.

AN EVOLVING GLOBAL TRADE CONTEXT

Up until the 2007/2008 financial crisis, international trade was primarily governed by the multilateral trade rules agreed upon by many countries within the framework of the WTO. Additionally, various regional agreements adhering to the principles of multilateralism complemented international trade. Simply put, during this period, political issues and geopolitical rivalries between countries had a limited impact on transnational investments or global trade. During this era, when political considerations were not strong conditioning factors in economic relations, trade dynamics were mainly defined by the relative competitiveness and trade policies of each country, which resulted in surprisingly strong economic growth of some emerging countries such as China, the Republic of Korea, and others.

This relatively apolitical trade regime began to change after the financial crisis in 2007/08. One main element was the perception by many, but especially by the USA government, that China's rapid economic growth had been possible, at least in part, by not complying with some of the basic rules of multilateralism. The main complaints have emphasized the role of the state in providing subsidies for the development of industrial firms and applying protectionist measures to slow imports all of which have been instrumental to attain the rapid economic development achieved by China[1].

The increasingly competitive and confrontational relationship that formed between the USA and China is evolving into the consolidation of two major economic and defensive alliances with a growing number of middle-sized countries adopting more flexible and independent positions[2]. Examples of this include the consolidation and expansion of the BRICS and the growing international importance of countries such as India, Brazil and Saudi Arabia in the governance of global initiatives and institutions.

This new and more conflictive geopolitical context is generating two major impacts:

a. the proliferation of regional armed conflicts, mainly in Ukraine and Israel but also in parts of Africa (like Sudan and Somalia) and in the Arab world.

b. negative perceptions in the western alliance on the global political role of China resulting in several economic and trade measures aimed at the economic containment of China.

One of the most important of these trade-related measures has been the adoption of a new industrial policy, first in the USA but now in the EU and in some other countries. This strategy follows what China, Japan, the Republic of Korea and many others have done successfully for many years as a basic instrument of their economic development policies.

The new industrial policies being implemented by the USA, and progressively by other countries, are based in a much stronger role of government in the organization, funding and protection of activities that are considered of "National Interest." For the time being, actions have concentrated on those sectors that are considered important from a national security point of view, but it is likely that in some cases/countries they may be extended to other

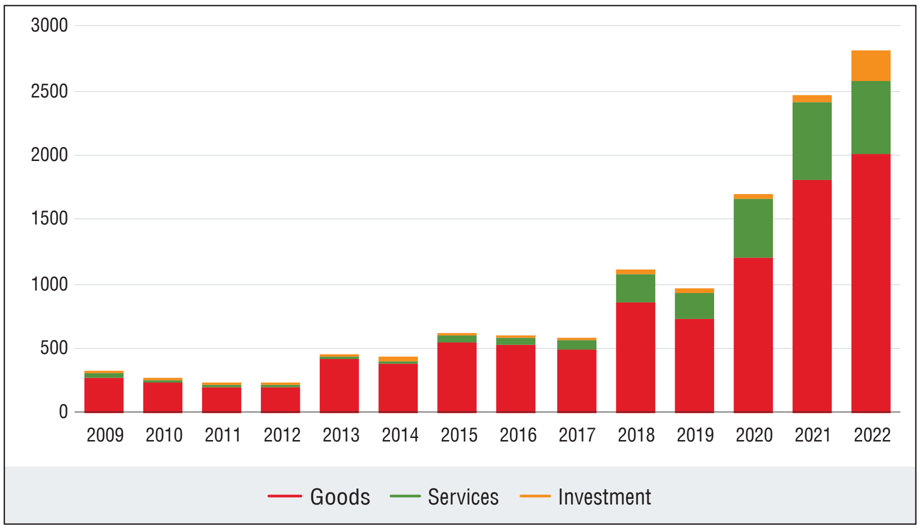
[1] For a discussion and analysis of these issues see: a) Richard Hass. The dangerous decade. Foreign Affairs. Sept/Oct. 2022 and b) Emma Ashford. The persistence of great-power politics. Foreign Affairs February 20, 2023.

[2] For a discussion of this subject see: a) Jorge Heine. The Global South is on the rise-but exactly what is the Global South. The Conversation, July 3, 2023. And b) Pineiro M and V. Pineiro Geopolítica de los alimentos en un mundo en transición: una perspectiva desde los países miembros del MERCOSUR. CARI/GPS. Mayo, 2022.

activities that are important from an employment or regional development perspectives[3].

It is obvious that these policies diverge from the principles of multilateralism[4]. In addition, as shown in Figure 2.3, these policies have been accompanied by several traditional trade protectionist measures. These are probably responsible for the close to 5% decrease in global trade expected by UNTAD for 2023[5].

FIGURE 2.3 Number of trade restrictions imposed annually worldwide.



Source: Global Trade Alert; IMF Staff Calculations.

The combination of policies that promote the national production of certain goods and services and the evolving political environment that includes actions to build closer associations with "thinkalike countries" and more conflictive relations with others, have led to the progressive "decoupling" of some economies, mainly USA and the UE, with China, Russia and some other countries politically associated to them.

These actions also resulted in the progressive implementation of more instrumental concepts such as nearshoring and friendshoring where main

3 See for example Chae, Ling and Miles Evers. Wars without gun smoke. Global supply chain, power transitions and economic statecraft. International Security. Vol.48 No2 Fall 2023 164-204.

4 This explains, at least in part, the reluctance of the USA government to allow the functioning of the WTO appellate body.

5 UNCTAD News December 12,2023.

value chains are reconstructed with the participation of countries that have a closer political and historical association. According to UNCTAD friendshoring has become more prominent after 2022 something which has not yet happened with nearshoring[6].

This evolving process is contrary to the basic concept and implicit rules of multilateralism and could lead to a wide process of deglobalization with considerable global economic costs[7]. However, as Ngozi Okonjo-Iweala, World Trade Organization Director General, correctly points out, the world should avoid deglobalization and concentrate in promoting a process of "Reglobalization," which protects trade and economic integration while taking into consideration the new limitations imposed by geopolitical conditions[8].

This perspective raises major challenges to trade negotiations because it implies that many of the traditional disciplines that have been the bread and butter of negotiation activities in the WTO become obsolete or where it is impossible to attain progress. In addition, it also raises questions and the efficiency and efficacy of trade institutions, mainly WTO. Changes are needed to maximize the capacity of these organizations in two areas: a) identifying and respond to the new restrictions and needs, and b) taking advantage of the new trade opportunities and priorities, that emerge from the economic transformations taking place, which in many cases are maladapted to the multilateral framework.

Progressing in this direction will most likely require significant changes in the ways countries interact with the WTO and the priorities on which the organization should concentrate in the negotiation processes[9]. Thus, the main challenge that the organization and its members face today is to correctly assess the new international context, adapt the ways in which the organization works. The WTO will also need to reprioritize internal mechanisms, trading themes, and the types and characteristics of trading agreements, to adapt them to the new circumstances.

6 However, there are some obvious cases like the relationship established recently between USA and Mexico to produce semiconductors.

7 Georgieva, Cristalina. The price of fragmentation. Foreign Affairs. September/October,2023.

8 Ngozi Okonjo-Iweala. Why the World still needs trade Foreign Affairs. July/August 2023.

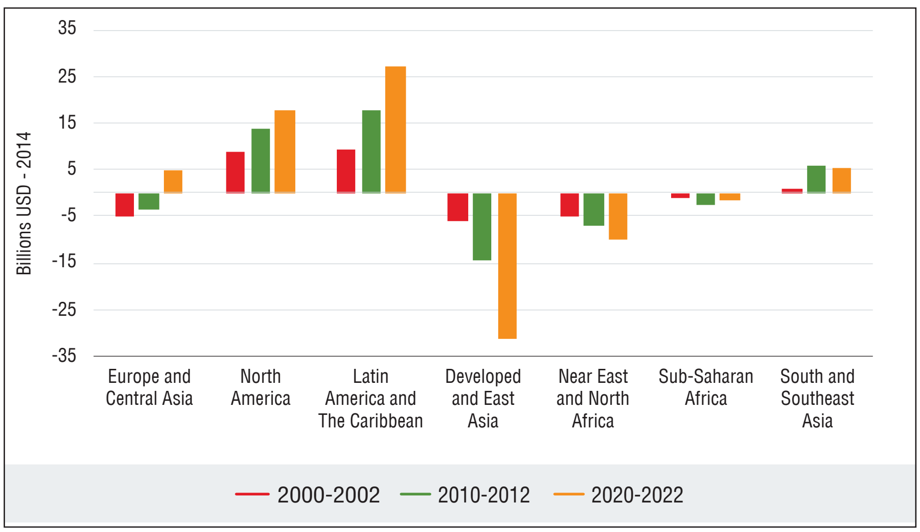
9 For an interesting description of the institutional problems in the WTO see: Fernando de Mateo. Situation actual y perspectivas de la OMC Comexi, 2024.

AGRICULTURAL TRADE: THE NEED TO DEAL WITH PRIORITIES THAT EMERGE FROM THE NEW GEOPOLITICAL CONTEXT

As shown in Figure 2.2 agricultural trade expanded, as a proportion of total trade, after 2006. A substantial proportion of this growth is explained by the additional food imports from China and a few other Asian countries as they industrialized and increased their per capita income.

Figure 2.4 shows the main regions of the world according to their net exporting or importing position. This shows the major role Western Hemisphere countries such as Brazil and Canada play as net exporters as well as the role of Asia, the Near East, and North Africa as importers.

FIGURE 2.4 Net food exports by region.



Source: Authors based on OECD/FAO (2024), “OECD-FAO Agricultural Outlook”.

On the other hand, in Figure 2.5, countries are grouped based on their overall political alliance. The Figure shows a substantial geographic and political imbalance in food trade needs. The western alliance is a net food exporter while the group loosely led by China, and to some extent Russia, is a net food importer.

FIGURE 2.5 ▶ Net food trade, 2022: the west and group led by China.

Source: Food excluding fish. FAOSTAT. Accessed March 2024.

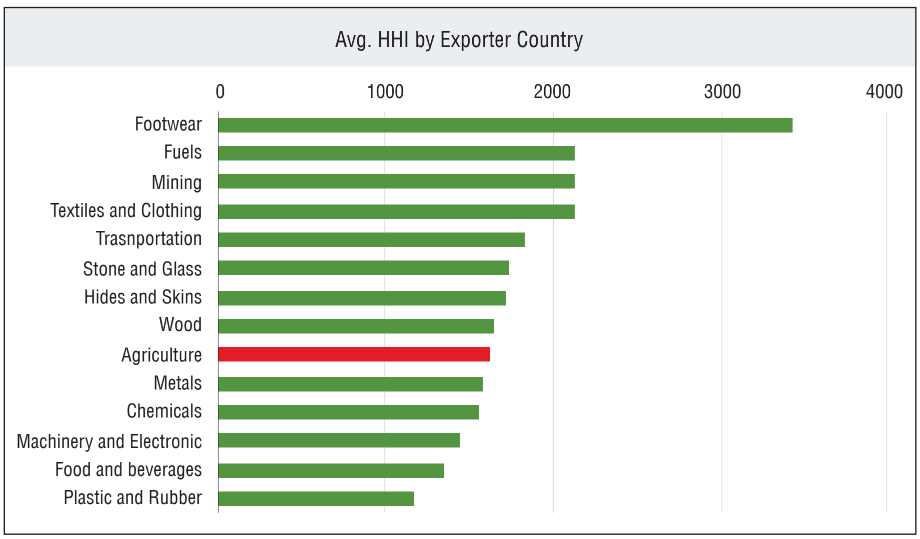
This regional imbalance is a direct consequence of the relative endowment of agricultural natural resources, including water, that countries/regions possess and consequently their productive capacities at reasonable production costs. In recent years, it has also become clear that countries better endowed in agricultural natural resources can also develop production strategies more compatible with climate change and ecological sustainability concerns.

Thus, food trade is a fundamental instrument, and will be even more in the future, to compensate for the significant imbalances that exist between food production capacities and food consumption in different regions. A disruption of food trade would result in extensive famines in an important segment of global populations.

It is also important to note that, as shown in Figure 2.6, trade is relatively concentrated in terms of the origin of exported goods. Most importing countries depend on a relatively small number of exporting countries for their supplies.

Figure 2.6[10] shows the level of supply concentrations of major traded goods, including main agricultural commodities. The figure shows the relatively high concentration of supply sources in agriculture where, in many cases, three or four countries are the major suppliers of food commodities to major importing countries.

FIGURE 2.6 Sectorial Average Concentration, calculated by exporter countries in 2022



Source: Own elaboration based on UN COMTRADE.

10 The HHI was calculated considering the participation of exporting countries in the total exports of each of the 4-digit products in 2022. Then, the average was obtained per group, where these were defined as follows:

Sector	HS-02	Sector	HS-02
Agriculture	01-15	Metals	72-83
Chemicals	28-38	Mining	25-26
Food and beverages	16-24	Plastic and Rubber	39-40
Footwear	64-67	Stone and Glass	68-71
Fuels	27	Textiles and Clothing	50-63
Hides and Skins	41-43	Transportation	86-89
Machinery and Electronic	84-85	Wood	44-49

These circumstances suggest the geopolitical importance of measures to safeguard food trade from policies or specific actions that may hinder efficient and effective global food trade. Given the growing uncertainties of the trade environment, such disruptions could threaten the food security of net importing countries.

These arguments suggest that, from the perspective of improving the trading environment and the role played by the WTO, there are three main areas of work that seem to be especially important and/or urgent[11].

First, the need to work on establishing clear rules and agreements for dismantling subsidies that work against the global relocation of agricultural production following an optimal geographic distribution from a natural resource, sustainability, and climate change perspective. This involves augmenting production in regions with efficient and sustainable practices to meet growing global demand. Repurposing domestic support is essential to achieve global sustainable production. Redirecting resources in this way can contribute significantly to this effort by fostering R&D, adoption, and investment in countries possessing natural resources but lacking the necessary technologies for sustainable production.

Second, to define and agree on policies regarding public stock holdings that take into consideration the needs of net importing countries in the face of global trade uncertainties. Two new uncertainties are of special significance:

a. the geopolitical landscape and the potential limitations that a more conflictive world could impose on trade in general and the capacity of importing countries to secure consistent access to food through trade[12].

b. the potential disruption of food trade logistical chains. Because of their bulky nature most food exports are transported by ships. These ships in most cases need to go through the Suez Canal, the Panama Canal, the Black Sea and/or the Indo-Pacific Sea, all of which are increasingly facing disruptions that may affect food trade[13].

[11] These suggestions should be red in the context of the analysis and recommendations found in: a) Ngozi Okongo-Iweala Op.Cit. and 2) Fernado de Mateo Op.Cit.

[12] International Crisis Group. 10 conflicts to watch in 2024. July 1, 2023.

[13] The recent problems in the Black Sea and the impact they had on the prices of wheat, sunflower and fertilizers is an example of potential future problems.

Third, the development and institutionalization of frameworks for bilateral and plurilateral trade agreements between net importing and net exporting countries that aim to help net importing countries obtain reliable food supplies despite the more uncertain trade environment.

These three themes are important and urgent in the construction of a more effective agricultural trade environment adjusted to the geopolitical realities. However, they are only one small part of the needed and urgent more general and overarching modernization of the trade environment in general and the strengthening of the WTO.