

**The COVID-19 Pandemic and Agriculture – Short- and Long-Run Implications for International Trade Relations****William A. Kerr**

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Abstract:

The COVID-19 pandemic has put unprecedented strain on food supply chains. Given the ever-increasing degree of globalization, those supply chains very often stretch across international borders. In the short run, countries have largely been working to keep those supply chains intact and operating efficiently so that panic buying is cooled and shifts in consumption habits arising from personal isolation can be accommodated. Once the crisis has passed, based on what has been learned regarding the international food system's resilience, governments may wish to strengthen institutions that govern international trade. On the other hand, based on their COVID-19 experience, governments may feel that they are too dependent on foreign sources of supply and may wish to reverse the impacts of globalization on their food systems. As a result, they may become increasingly isolationist, eschewing international cooperation. Which of these opposing forces will prevail may depend on the paths economies follow after the disequilibrium precipitated by the pandemic.

Keywords: COVID-19, disequilibrium, food trade, international cooperation, pandemic

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Résumé:

La pandémie de COVID-19 a exercé une pression sans précédent sur les chaînes d'approvisionnement alimentaire. Étant donné le degré de mondialisation de plus en plus grand, ces chaînes d'approvisionnement s'étendent très souvent au-delà des frontières internationales. À court terme, les pays ont œuvré pour maintenir ces chaînes d'approvisionnement intactes et fonctionner efficacement afin que les achats de panique soient refroidis et que les changements dans les habitudes de consommation résultant de l'isolement personnel puissent être pris en compte. Une fois la crise passée, sur la base de ce qui a été appris concernant la résilience du système alimentaire international, les gouvernements pourraient souhaiter renforcer les institutions qui régissent le commerce international. D'un autre côté, sur la base de leur expérience COVID-19, les gouvernements peuvent estimer qu'ils sont trop dépendants des sources d'approvisionnement étrangères et peuvent souhaiter inverser les impacts de la mondialisation sur leurs systèmes alimentaires. En conséquence, ils peuvent devenir de plus en plus isolationnistes, évitant la coopération internationale. Laquelle de ces forces opposées prévaudra peut dépendre des voies qui seront empruntées par les économies après le déséquilibre provoqué par la pandémie.

Introduction

Beyond a global human health tragedy on a scale that has never been experienced in living memory, the measures required to deal with the COVID-19 pandemic have led to a massive disruption to economic activity. All shocks to the economy lead to periods of disequilibrium. In most cases, economists expect markets to return to situations near to the previous equilibrium (Kerr, 2016). The disequilibrium precipitated by the COVID-19 economic disruption, however, has been much more rapid and possibly larger than previous major shocks – e.g., the financial crisis of 2007/2008, the Great Depression of the 1930s, the Second World War. Given the size of the disequilibrium, the future paths of adjustment are difficult to predict and alternatives to a swift return to previous equilibria are possible – cyclical paths of various configurations or degenerate paths (Kerr, 2003). Governments around the world have been putting in place a range of policies either aimed at dampening the degree of disequilibrium or to ensure that economic actors have the wherewithal to resume their previous levels of commercial activity. In truth, they have no idea whether they will be sufficient or that they will work at all. Hence, forecasting the future shape of economic activity, including international trade relationships for agriculture, is pure speculation.

The arrival of the pandemic was so swift that countries have generally not put measures in place that would flout the agreed rules of international trade. In their attempts to restrict the international movement of people who might be carrying the virus, they have inadvertently increased *friction*, for example, for truck drivers crossing international borders. Governments, however, have been so keen to keep supply chains, particularly for food given panic buying,

flowing as smoothly as possible that these forms of *friction* have largely been dealt with expeditiously. More disruptive has been the cessation of air travel, particularly for planes used simultaneously for passengers and freight. This has disrupted supply chains for some high-end products such as cut flowers and seafood.

The major effects on global trade resulted from government restrictions on personal and economic activity. There will be two major waves of these disruptions. The first is supply-side disruptions, starting in China, given its importance in manufacturing, but in other countries as well as they follow suit with restrictions on going to work and suffer from illness in the workforce. Supply disruptions will spread. Export supplies will fall with declines in production. The second wave will be the result of declining demand. As a variety of retail outlets are forced to close, they will cease placing orders for new stock, including overseas orders. As incomes are disrupted, demand will fall further. Consumer durables will be particularly hard hit. For example, automobile manufacturers have all but ceased production in China and Europe.

Trade in agricultural products has been relatively immune to these disruptions, at least over the short run. As suggested above, governments have been desperate to keep food supply chains functioning. Panic buying has produced short run spikes in demand for certain products. As incomes decline, household budget allocations are more stable for food relative to other products. Given the long lags between production decisions and harvests and smoothing storage capacity, output has not seen the disruptions taking place in other industries. As the virus spreads, however, it may affect farm labour. Further, for some crops, restrictions on cross-border movements of people may lead to shortages of seasonal labour. Labour along supply chains may also become a constraint as the virus spreads.

If incomes remain low for a considerable period, there may be a shifting of food purchases more to staples and less processed products as consumers re-allocate within shrinking budgets. As cereal grains and some other major tradable commodities are staples their international shipments are likely to be maintained, while more exotic, luxury, and processed foreign items may see reductions in their shipments. In this way, the globalization of agriculture may be somewhat reduced.

Agricultural Trade Relations

In the past, in the aftermath of major economic disruptions there have been re-evaluations of how international relations are to be conducted going forward. For example, in the wake of the First World War the economic arm of the League of Nations engendered a considerable degree of international cooperation culminating in the World Economic Conference in 1927, which even included non-member - the United States. The countries attending the conference agreed that it was the time to end tariffs (League of Nations, 1927). In the wake of the

economic fallout from the 1929 stock market crash, however, countries moved from relatively open international trade regimes to a high degree of protectionism with the passing of the Smoot-Hawley Tariff Act in the US in June 1930. Even before Smoot-Hawley was passed into law, Canada was the first country to retaliate in May 1930. Many other countries followed suit, raising tariffs and trade barriers against the US and each other. It was a period of virtually no international cooperation.

The lack of international cooperation in the 1930s resulted in the Great Depression being deeper and longer than it should have been (Pomfret, 1991). The Great Depression was followed immediately by the disruption of the Second World War. As the war neared its end, the victors – primarily the US as the new hegemon and the much experienced United Kingdom – decided that the major cause of the Great Depression and the war that followed was a lack of international cooperation, particularly the absence of international institutions to resolve conflicts (Kerr, 2010). They set about to remedy the situation by putting into place a number of multilateral institutions to reduce the sources of international conflict. The United Nations was created to reduce political conflict. At Bretton-Woods two new organizations were negotiated: (1) the International Monetary Fund (IMF) to deal with strategic devaluations (in the period of fixed exchange rates); and (2) the World Bank to close the gap between rich and poor nations. Finally, an International Trade Organization (ITO) was negotiated to deal with international trade tensions. In the end, the ITO was stillborn due to the reluctance of the US Congress to accept its disciplines. At the end of the war, however, most of the very high tariffs from the 1930s remained in place and the General Agreement on Tariffs and Trade (GATT) had been negotiated to provide a mechanism to reduce them. In the absence of the ITO, it became the *de facto* multilateral organization to deal with international trade issues. Clearly, this was a period of a high degree of international cooperation in the wake of a crisis. Of course, cooperation on trade in agricultural products has always been difficult and, due to the granting of a number of *waivers* in the early years of the GATT, agricultural trade did not come under most GATT disciplines until the end of the Uruguay Round in 1994 and the creation of the WTO.

Once the immediate economic disruption precipitated by the COVID-19 outbreak has passed, reassessments will start. There are likely two potential reactions to the international aspects of the pandemic. One will be a desire for more international cooperation to have the global economy better prepared for any similar future disruptions. The other will be an instinctive reaction to disengage to some extent from globalization and reduce dependence on other countries. While these two potential responses mirror those that arose in the wake of previous crises, the motivations will be different.

The motivation for increased cooperation in international trade in a post-COVID-19 world will be to ensure that international supply chains, particularly those for medicines, medical equipment, medical supplies, and food remain open in times of crisis. Previous motivations related to removing trade restrictions to spur economic growth. COVID-19 pointed out how

interdependent economies have become and how reliant on international shipments supply chains are. Given the degree of domestic economic disruption caused by the steps to manage the medical emergency, the additional disruptions caused by restrictions on international shipments would have exacerbated problems such as panic buying of food and would have been very difficult for governments focused on dealing with the medical emergency to deal with. For the most part, rather than restricting exports, governments engaged in bidding wars for medical equipment and supplies, although the EU did put a cooperative venture among its member states together to procure equipment such as ventilators. Rather than direct export restrictions such as bans for medical equipment and supplies, governments have used restrictions on selling to foreign governments or buyers to bolster their procurement efforts. The US has forbidden some US companies from making medical supplies to sell to foreign buyers. The WTO's voluntary plurilateral Government Procurement Agreement has too few members and is not designed to deal with this type of crisis (Khorana et al., 2014). Thus far, Vietnam and Kazakhstan are the only major exporters of staples to restrict exports due to the pandemic. Serbia has restricted exports of cooking oil. As incomes fall drastically in some developing countries, however, governments may be tempted to restrict food exports to lower domestic prices in an attempt to help poor consumers. It is, however, the restrictions on exports of medical equipment and supplies rather than food that are more likely to lead to *ex post* efforts to impose stricter disciplines on export restrictions.

It has long been recognized that WTO discipline on exports are particularly weak (Cardwell & Kerr, 2014). The WTO's GATT imposes no restrictions on the use of export taxes; thus, there are no effective international law disciplines on restricting exports. Paragraph 1 of Article XI of the GATT-1994 states that there shall be "no prohibitions or restrictions other than duties, taxes or other charges...on the exportation...of any product." An export tax, however, can be used to restrict exports to any degree – high enough to restrict exports to zero if desired (Scholefield & Gaisford, 2007).

Quantitative restrictions on exports are banned for all products, including agricultural products, but this has no real effect. If a ban or export quota were to be challenged it could easily be converted to an export tax that could not be challenged. Further, an exception to the restriction on quantitative measures is allowed: Article XI of the GATT-1994, paragraph 2(a) states that export restrictions can be "temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party." Hence, in the case of agricultural products, it appears as if quantitative restrictions can be used in addition to export taxes (Mitra & Josling, 2009).

As a result of further negotiations, a number of *soft law* provisions have been included in explanatory texts on export restrictions, such that if a member is planning the imposition of export restrictions it is obligated to consider the impact on the food security of importers, to give advanced notice and, if requested, to consult with a country that feels it will be negatively impacted. In 2007/2008, in response to the food price crisis, it does not appear that

those countries imposing the export restrictions felt the need to engage in any of these *soft law* niceties (Mitra & Josling, 2009). Hence, under current multilateral rules, countries can impose costs on their trading partners with impunity (Cardwell & Kerr, 2014).

In the aftermath of the food price crisis of 2007/2008 there were serious discussions regarding the tightening of WTO disciplines on export restrictions (Sharma, 2011), but to no avail. COVID-19 may focus the attention of countries to again try to strengthen international disciplines on export restrictions. While the pandemic may bolster the arguments for keeping supply chains intact and unencumbered due to the fragility of just in time minimal inventory systems in times of crisis, the opposition arguments will have a familiar ring – export restrictions need to be an option to keep products available for domestic customers and domestic prices low. Low income countries may fear that rich countries may outbid domestic customers for available domestic stocks of medical equipment and medical supplies, and possibly food.

The pandemic may, however, lead to countries disavowing international cooperation and raising trade barriers. The motivation for imposing trade barriers will be different than traditional protectionism. Countries may feel that they are too dependent on foreign suppliers. They may want to retreat from globalization and encourage additional domestic supplies. This is particularly true given China's prominence in supplying some forms of medical products. This may be less likely for agricultural products, but to the degree that the difficulties in adjusting food supply to panic buying was due to stress in international supply chains, a preference for a greater degree of self-sufficiency may attract policy makers. Of course, such measures will benefit domestic producers in importing countries. As a result, it can be expected that they will add their experienced protectionist voices to the calls for food independence – one should never forget that protectionist vested interests are always with us. Local food advocates will add their voice to the chorus advocating disengagement. In the case of the Smoot-Hawley tariffs in the US, the original proposed legislation was only to provide protection for farmers, but other protectionist interests piled in leading to wide-ranging trade restrictions encompassing almost all sectors.

The ruling paradigm of international trade (i.e., trade liberalization is welfare enhancing, reduction of trade barriers is a long run project given the stubborn resistance of protectionist interests and strong rules of trade) was already under considerable pressure as distributional issues over the gains from trade garnered increased attention (e.g., *those left behind* figured prominently in both Brexit and the election of Donald Trump) (Kerr & Viju-Miljusevic, 2019). The US presidential election in 2020 will also be important as reducing dependence on foreign suppliers fits into the reshoring and *America First* agenda of the Trump administration (Kerr, 2018). If President Trump is re-elected, the probability of less international cooperation will increase considerably. Once the election is over, President Trump will no longer need the farm vote in key states, removing the pressure to increase

agricultural sales to China, thus giving a freer hand to impose further trade barriers on, for example, higher value foods and seafood.

In the end, whether there is greater international cooperation on trade or less international engagement on trade will likely depend on the dynamic path that emerges post-crisis. If there is a quick return to near normal equilibrium then governments may see advantages to cooperating to strengthen the rules of trade, including agricultural trade. On the other hand, if the post-crisis path of adjustment converges slowly, is cyclical in nature, or diverges away from the pre-crisis equilibrium, then politicians will be looking for ways to gain further control over their economies (Kerr, 2009). Disengagement with foreign markets may appear as one way to garner such control. If the latter strategy is chosen, it will be a further step toward dismantling the progress made in liberalizing trade over the past seventy years.

Conclusion

The COVID-19 pandemic is having a major effect on economic activity – it is moving economies far from familiar equilibriums. The degree of disequilibrium across economies is unprecedented, meaning future paths of adjustment are difficult to discern. The international supply chains in the agricultural and food industries have strained to keep up, first with panic buying, followed by forced changes in food consumption patterns in the shift away from a considerable proportion of food being consumed away from home, and, finally, abrupt declines in incomes. Keeping food supply chains, including those with foreign components, operating has been a priority. Hence, in the future there may be a desire to strengthen international cooperation to aid keeping supply chains operating in times of crisis. On the other hand, the COVID-19 crisis has made apparent the dependence of food security on foreign supplies. This will lead to increased calls for greater self-sufficiency, protectionist measures, and less international engagement. Which of these forces will dominate international relations pertaining to agriculture and food will, in part, depend on how economies evolve in the wake of the COVID-19 pandemic.

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