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COVID-19, the oil price slump and food security in low-income countries[1]

Maximilian Heigermoser
Thomas Glauben

The shutdown measures implemented to fight the Covid-19 pandemic resulted in a historic drop in crude oil prices, which implies existential challenges to countries depending on energy exports. The three largest crude oil exporters in Africa (Algeria, Angola and Nigeria) are - like numerous other raw material exporters worldwide - facing devaluing currencies and dwindling currency reserves. As food security in these states largely depends on imports of wheat and rice, domestic food prices are expected to rise due to the currency depreciation. This puts further pressure on populations with already low incomes, while local shutdowns and reduced economic activity lead to additional income losses. Recent panic buying and (temporary) export restrictions on international grain markets further exacerbate the situation. Not least due to currently ample grain stocks, such measures are not to be recommended. Instead, solidarity amongst nations, taking the form of emergency aid such as debt relief, food deliveries and medical aid, is required more urgently than ever. Furthermore, it is advisable to ease bureaucratic and tariff trade barriers to facilitate international trade. Demands for greater autarchy and de-globalisation should be avoided in the current precarious situation.

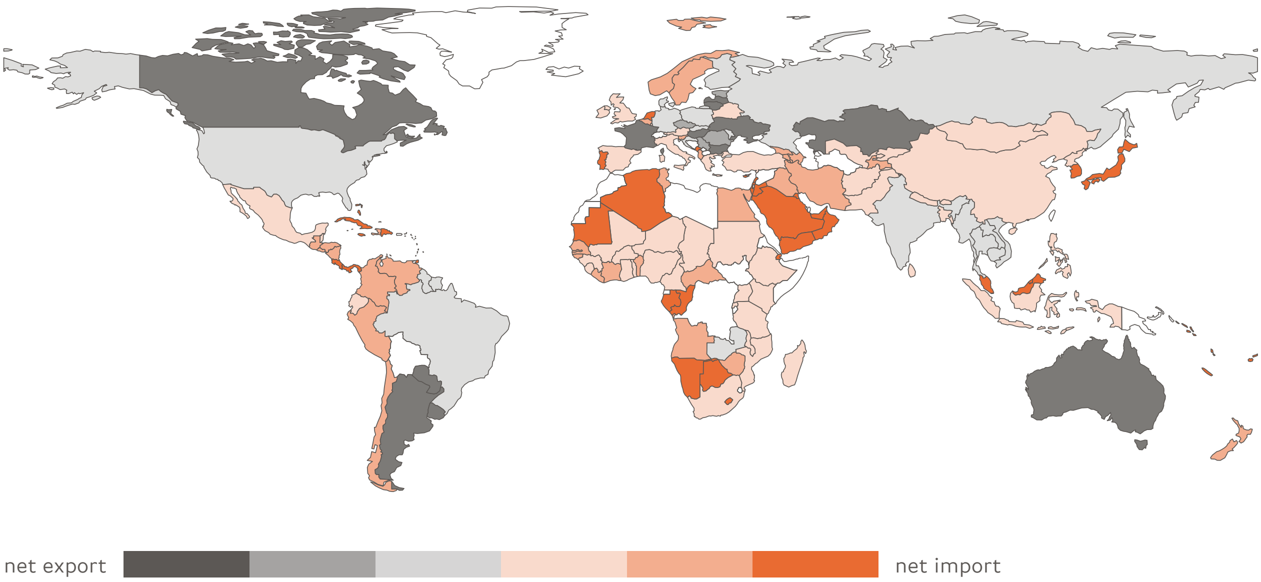
COVID-19 and global shutdown

Human-to-human transmission of the SARS-CoV-2 pathogen first occurred in late 2019 in Wuhan (China). In early 2020, the virus began spreading in China and neighbouring countries. In March 2020, Europe and later the USA emerged as centres of the Covid-19 pandemic, which was officially declared by the World Health Organization (WHO) on 12 March, 2020. In view of increasing numbers of infections, countries around the world implemented social distancing measures to slow the spread of the virus. These measures ranged from curfews and the obligation to wear face masks, to border closures and the termination of flight connections. In Germany, the federal states and the national government agreed on a comprehensive ban on human contact ("Kontaktverbot") on 22 March, 2020. This policy includes social distancing regulations, assembly restrictions and the temporary closure of schools, restaurants and other parts of the retail and service sector.

It seems not surprising that a worldwide discussion about the proportionality of these measures has sparked. Precisely, it is evaluated whether the social and legal constraints, as well as economic and health risks[2] resulting from the shutdown are proportional to the risks of Covid-19 itself (Abele-Brehm et al., 2020; Augurzky and Schmidt, 2020). This consideration gains importance once a purely national viewpoint is extended and consequences at the international level are considered, as well. The constraints to international trade that resulted from the national shutdowns, as well as the risk of the "worst economic downturn since the Great Depression" (Gopinath, 2020) are increasingly threatening the supply of staple foods and medical goods, particularly in less developed regions. In the context of international obligations and responsibilities, this

[1] Status 11 May, 2020.
[2] Such as through restrictions on treatment of other illnesses or foreseeable funding shortfalls in the healthcare system as a result of declining economic activity

Figure 1: Grain trade relative to total consumption
Source: Own representation. Data: FAO (2020).



also raises questions regarding the balancing of the United Nations sustainability goals one (no poverty), two (zero hunger) and three (health and well-being).

Oil exporting and food importing countries face existential risk

In countries with weaker social security systems, larger informal sectors of the economy and tighter budgetary constraints, the consequences of the global economic standstill are even direr. The World Bank Group (2020) has forecast that Sub-Saharan Africa will see its first recession in 25 years, while the Global Network Against Food Crises (2020) warns that the number of people suffering hunger could double as a result of the Covid-19 crisis, if people are unable to go to work and low incomes further erode. The International Food Policy Research Institute (IFPRI) expects that economies that are dependent on the export of primary goods such as crude oil or industrial metals will be hard hit by the global economic downturn (Laborde, Martin and Vos, 2020). Falling remittances[3] will particularly strain households in Central Asian states, while a slump in tourism primarily threatens island nations and South-East Asian countries. Generally, countries that see their inflows of hard currency dwindle whilst being dependent on food imports are facing multiple threats to their livelihoods. The three largest oil exporting countries of Africa (Angola, Algeria and Nigeria) can exemplify this connection, as their respective energy exports account for over 90 percent of total exports, while 64 percent, 72 percent and 19 percent of the grain consumed domestically is imported according to the Food and Agriculture Organization of the United Nations (FAO, Figure 1).

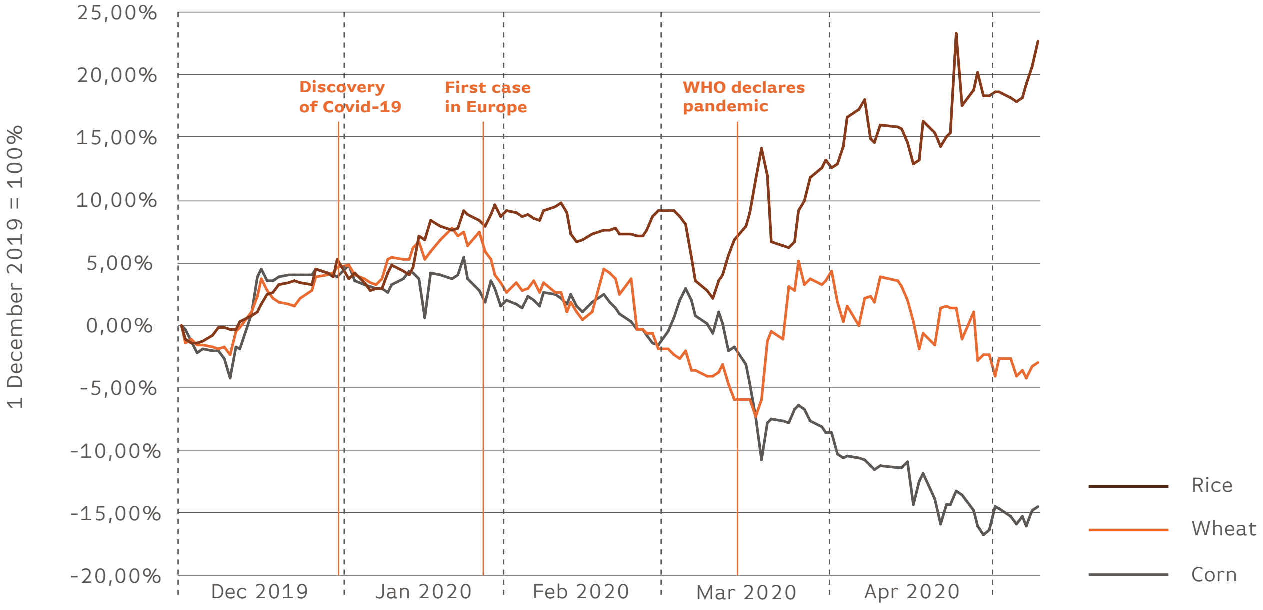
Since mid-February 2020, the price of crude oil fell by 70 percent within two months and reached its lowest level in more than twenty years, due to declining energy demand and an oil price conflict. As a result, currencies of countries depending on energy exports devalued: the Angolan kwanza, the Algerian dinar and the Nigerian naira have lost 15 percent, 7 percent and 8 percent of their value against the US dollar, respectively, since the beginning of March 2020. Consequentially, grain imports become more expensive, resulting in increasing prices on domestic markets. In Angola and Nigeria, the most populous African country, with 200 million people, 55 percent and 60 percent of the population live in extreme poverty.[4] Restrictions on leaving the home thus reduce the opportunity to produce incomes especially of urban populations, while currency devaluation stir up food price inflation, even if prices on international grain markets (denoted in US dollars) do not increase.

Since the outbreak of the Covid-19 pandemic, divergent price trends could be observed on international grain markets (Figure 2). The price of corn on the Chicago Board of Trade futures market fell by 15 percent between the end of February 2020 and the end of April 2020. During the same period, the price of rice rose by around 20 percent, while the wheat price increased strongly in the third week of March in particular.

Around 40 percent of US corn goes into ethanol production. Due to low crude oil prices, this industry became unprofitable and ethanol production is temporarily discontinued, which reduces the demand for corn. The short-term rise in the world wheat market in mid-March, 2020, may be linked to

[3] Remittances are the financial transfers made by people working abroad to their home countries.
[4] This is defined as an income of 5.50 USD per day or less.

Figure 2: Grain futures on the Chicago Board of Trade
Source: Own representation. Data: Yahoo Finance (2020).



export restrictions proposed by Russia, the world's top wheat exporter (Heigermoser and Götz, 2019), as well as Ukraine, Kazakhstan and Romania that aimed to ensure the domestic availability of wheat amid accelerating exports.[5] Vietnam, one of the world's largest rice exporters, also imposed trade restriction at the end of March 2020. Following reports of rice rotting in warehouses and on cargo ships, the government in Hanoi announced the resumption of exports from May 2020.

Trade restrictions of this kind can have severe consequences for food security in grain importing countries (Glauben et al., 2015; Götz et al., 2013). They can trigger uncertainty in the markets and result in elevated price levels. It is worth noting that global grain stocks are currently at comparatively high levels. Their regional distribution is, however, rather uneven. The US Ministry of Agriculture estimates that China alone holds half of global wheat stocks and two thirds of rice and corn stocks, respectively.

Solidarity and international trade is required

Within weeks, Covid-19 has forced the global economy to grind to a halt. This global shutdown will likely result in a historic global recession, the extent of which remains unknown. Especially countries with lower per capita incomes, poorly-developed social security nets and high levels of state debt face existential challenges. If the inflow of hard currency dries up, while the dependency on imports remains, the supply of the population with basic goods such as staple food is at risk.

Facing this scenario, the solidarity of the international community will be of crucial importance, especially with regard to immediate measures. In this regard, the deferral of debt servicing for 77 low-income countries for 2020 recently announced by the G20 is welcomed. Further deferral or waivers must be considered during the course of the year. Furthermore, adequate funding of the World Food Programme (WFP) and comparable aid organizations will be urgently required in the coming months. Countries with low currency reserves, such as Nigeria, Angola, Iraq, Iran, Venezuela, Azerbaijan, Uzbekistan or Kyrgyzstan, to name just a few, have little capacity for national assistance packages.

In times of crisis, ensuring the smooth flow of goods from surplus to deficit regions is central to global food security. A short-term removal of bureaucratic and tariff trade barriers is strongly recommended. Export restrictions and panic buying on the world grain markets are not justifiable, especially in view of adequate stocks and a positive outlook for this year's crop. Additionally, calls for stricter autarchy are to be resisted. Especially in Europe, international food chains have proven to perform well in the recent weeks of crisis (Hess, 2020). The countries themselves are called upon to evaluate the measures implemented to limit the spread of Covid-19. Restrictions on human contact, leaving the home or the closure of local businesses have resulted in considerable loss of income for large sections of the population that puts the sufficient supply of food at risk once more.

[5] However, these export restrictions will likely not have any restrictive effect, as total export volumes are expected to lie beneath the permitted maximal volumes. In case of Romania, the restrictions were lifted again a few days after their announcement.

Further Information

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Contact

Maximilian Heigermoser
heigermoser@iamo.de
Tel.: +49 345 2928-133

Prof. Dr. Dr. h.c.
Thomas Glauben
glauben@iamo.de
Tel.: +49 345 2928-200

Leibniz Institute of Agricultural Development in Transition Economies (IAMO)
Theodor-Lieser-Str. 2
06120 Halle (Saale)
Germany
www.iamo.de/en

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