

## Trade Responses to Covid-19 Food Security Concerns in Bangladesh

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### 1. Covid-19 Related Border Closures, Trade Restrictions and Food Security in Bangladesh

**The Covid-19 health crisis can lead to a food security crisis in Bangladesh if proper measures are not put in place.** This global pandemic may cause breaks in food supply chains, food shortages and food price spikes in Bangladesh<sup>2</sup> and a broader range of countries. As widespread lockdowns cause the global economy to slow or fall into recession, the risk of exacerbating extreme poverty and hunger is high (WFP, 2020).

**As the pandemic spreads and its economic impact deepens, the World Bank has proposed several measures to address food security concerns in Bangladesh.** Specifically, maintaining food security will require special attention to ensure: (i) functioning food markets and value chains (domestically and internationally); (ii) maintain purchasing power (social protection measures) of the rural and urban poor, including the large informal sector; and (iii) safeguard production of the next agricultural season (input and labor supply) (World Bank, 2020a).

**Although at this stage, trade-related disruptions seem less acute than domestic supply chain disruptions, border closures may pose short-term food security challenges in Bangladesh.** World Bank (2020a) notes that globally, food security risks are currently higher from disruptions to domestic supply chains than international trade as exports seem to remain largely unaffected by significant logistics disruptions in exporting countries with major ports and sea freight channels still operating and only air freight severely affected. However, connectivity and logistics challenges<sup>3</sup> in importing countries such as Bangladesh can affect the availability of essential food products. Recent reports indicate that Chattogram Port has run out of storage space<sup>4</sup>. A queue of 20 container vessels are waiting in outer anchorage. Storage reached 44,191 containers (twenty-foot equivalent units) against a capacity of 37,620, with 3,032 refrigerated containers against a capacity of 1,620. The national shutdown has disrupted normal transportation routes. Furthermore, border closures may lead to substantive disruptions of informal trade flows in many developing countries. For instance, Taneja (2014) finds that informal trade was 50 percent of formal trade in South Asia, with processed and unprocessed food products and livestock representing a substantive share of informal flows between Bangladesh and India. Thus, informal trade disruptions may have an immediate impact on food security in Bangladesh especially for the poor.

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<sup>2</sup> The food security issues are likely to aggravate during the month of Ramadan (starting at the end of April) when the demand for import-dependent products such as edible oil and sugar is expected to rise.

<sup>3</sup> Logistics costs in Bangladesh are high in most sectors, including food products ranging from about 10 percent of sales (for dairy) to almost 50 percent of sales (for horticulture). Congestion and delays are pervasive problems across the country from roads to seaports and land ports. According to the World Bank, if congestion on the roads was eliminated, logistics costs would be at least 7–35 percent lower, depending on the sector. Bangladesh's logistics system is fragmented in terms of both infrastructure and services (World Bank, 2020b).

<sup>4</sup> <https://www.thedailystar.net/business/news/glut-freight-waits-the-ships-1890256>

**Additional impacts of prolonged border closures on food security are expected in the medium term.**

Recent experiences with major outbreaks such as Ebola, SARS, and MERS can shed some light on the direct and indirect negative impacts of interrupted transport and connectivity on food security. During the Ebola crisis in West Africa, closed borders contributed to a significant drop in economic activity in outbreak countries such as Liberia, Sierra Leone, and Guinea. The closed land borders have effectively shut down all land trade, both formal and informal. The lack of mobility and trade, the flight to urban areas by many farmers, failed crops and a lack of available inputs have hit the agriculture sector hard. In Guinea, for example, rice production is estimated to have fallen by 20 per cent in 2014, coffee by half, cocoa by a third, and corn by a quarter (World Bank, 2015).

**While trade policy responses have been so far largely muted, there are worrisome developments regarding potential trade restrictions that risk creating a food price spike despite sufficient global food supplies.** Trade restrictions can further increase food insecurity risks. Import tariffs can limit the availability of essential food supplies, while export restrictions further raise the level and the volatility of food staples. Recently, several governments have started to launch export restrictions on food products. For example, Russia is planning to limit grain exports to 7 million tons from April through June, while Vietnam has temporarily suspended rice exports, and Indian rice traders have stopped signing new export contracts due to labor shortages and logistics disruptions (Reuters, April 3, 2020).

**Recent export restrictions and stockpiling of food have started to contribute to increases in grain prices.** For instance, wheat traded on the futures market in Chicago has risen by 10 per cent between mid-March and beginning of April, reaching USD 5.50 a bushel, while physical prices for French wheat have increased by 11 per cent. Benchmark Vietnamese rice prices have increased by 14 per cent to USD 410 a ton since the start of 2019 (Financial Times, Countries follow consumers in stockpiling food, April 4, 2020). This is consistent the commodity price spikes observed during the 2006-2008 severe droughts that were generated by several governments' restrictions on shipments of food abroad (Global Trade Alert, 2020).

Trade restrictions can affect import-dependent essential food products such as wheat, sugar and edible oils in Bangladesh. While Bangladesh is self-sufficient in rice production, the country is largely dependent on imports of other essential items such as wheat and sugar (table 1). In addition, around 90-92 percent of demand for edible oil is met through import<sup>5</sup>. In FY19, the top 5 food import items in terms of import value consisted of wheat, sugar, and edible oil products (table 2), covering over 58.2 percent total food imports.

**Table 1: Food Production and Imports in Bangladesh (Million MT)**

	Rice		Wheat		Sugar	
	Production (Net)	Imports	Production (Net)	Imports	Production	Imports
FY15	30.5	1.5	1.1	3.8	0.1	2.0
FY16	30.5	0.3	1.1	4.4	0.1	2.1
FY17	29.7	0.1	1.1	5.7	0.1	2.1
FY18	31.9	3.9	0.9	5.9	0.1	2.5
FY19	32.0	0.2	0.9	5.6	0.1	1.9

Source: Food Planning and Monitoring Unit, Ministry of Food at: <http://fpmu.gov.bd/fpmu-database/MAIN.HTM>

<sup>5</sup> Rising trend in consumption of oils and fats in Bangladesh, The Financial Express, February 22,2020. <https://thefinancialexpress.com.bd/views/analysis/rising-trend-in-consumption-of-oils-and-fats-in-bangladesh-1582381921>

**Table 2: Top 10 food imports in FY19**

HS Code	Product name	Import Value (Billion Tk)	% of food import
10011990	Durum wheat,	123.5	19.0
17011400	Other cane sugar	66.6	10.3
15119090	Palm oil	64.9	10.0
15071000	Crude oil	62.1	9.6
12019090	Soya beans	60.8	9.4
10059090	Other Maize	24.6	3.8
04022191	Milk & cream	20.3	3.3
07031019	Onions, fresh or chilled	18.5	2.8
07134090	Dried lentils	15.9	2.5
07131090	Dried peas shelled	13.1	2.0

Source: NBR

**Although Bangladesh's current public grain stock seems adequate, recent reports point to increasing food shortages.** At almost 1.7 million MT, the public food grain stock (rice and wheat combined) was 13.5 percent higher as of March 23, 2020 than the grain stock registered over the same period in the previous fiscal year. The government imported 5.18 million MT of food grains (out of which 0.04 million MT was rice), while another 0.5 million MT of wheat is at the port expecting unloading and clearing customs (as of March 23, 2020). However, the pandemic-related shutdown and the shortage of labor are already impacting the March-April harvest of Boro rice, the largest rice crop production in Bangladesh<sup>6</sup>. This is expected to negatively impact the government's procurement target of 1.15 million MT of Boro rice and 0.6 million MT of unhusked rice during the harvesting season. Furthermore, reports of food shortages are beginning to emerge. For instance, on April 7, 2020, the Trading Corporation of Bangladesh (TCB) began selling subsidized essential food items in Dhaka but was unable to meet demand<sup>7</sup>.

**Table 3: Grain in public stock ( '000 MT)**

	FY 20 (as of March 23)	FY19 ( As of March 23)
Rice	1387	1329
Wheat	308	164
Total	1695	1493

Source: Food Planning and Monitoring Unit, Ministry of Food

<sup>6</sup> <https://thefinancialexpress.com.bd/trade/lockdown-causes-labour-shortage-in-harvest-time-1586318618>
<sup>7</sup> <https://thefinancialexpress.com.bd/trade/tcb-trucks-fail-to-meet-demand-despite-thin-consumers-presence-1586227062>

## 2. Trade Responses to Address Covid-19 Food Security Concerns in Bangladesh

**Trade policies can be an essential instrument in the management of food crises.** Bangladesh can put in place a set of trade responses to maintain access to and reduce the cost of essential food products. Broad guidance on key trade responses such as eliminating tariffs, refraining from imposing export restrictions, reducing the tax and administrative burdens on all importers and exports, and facilitating trade flows is provided in recent World Bank Trade Guidance Notes such as World Bank (2020b) [Do's and Don'ts of Trade Policy in the Response to COVID-19](#) and World Bank (2020c) [Managing Risk and Facilitating Trade in the COVID-19 Pandemic](#). Concretely, Bangladesh may consider the following trade responses.

**Trade facilitation measures can alleviate the crisis by expediting the movement, release, and clearance of essential food products.** Recent measures implemented by the National Board of Revenue to expand customs assessment at ports to reduce congestion and waive storage fees for containers during the national shutdown can be complemented with additional interventions to sustain and enhance the efficiency of logistics. For instance, support to the Government of Bangladesh with the implementation of a National Single Window to automate and integrate all key processes and procedures associated with the application, submission, processing, payment and clearance of trade related permits, licenses, certificates and declarations could be streamlined. Although Bangladesh has phased out mandatory pre-shipment inspections (PSIs), it could eliminate all voluntary PSIs for essential food products. A focus on automation and electronic procedures can facilitate the distancing between traders and border officials in addition to improving logistics efficiency.

**Bangladesh can remove import tariffs and taxes on key food products to increase the availability of essential food products.** To provide guidance for a possible removal of import tariffs and taxes, Table 4 summarizes the import revenues collected on food products. It shows that lowering prices for staple foods such as cereals, sugar, meats and nuts can be done at a relatively reduced fiscal cost. More details on the various taxes and collected revenue for selected staple foods are presented in the Annex Table.

**A complementary policy response could lower the interest rate on import loans for essential commodities (i.e. edible oil, sugar etc.).** The Bangladesh Bank lowered the interest rate on import loans to 9 percent for nine commodities in early March (one month before the scheduled date to lower the interest rate on lending). The interest rate on import loans for these commodities could be lowered even further to promote imports and increase availability of essential food products.

**Table 4: Import Revenues for Key Food Products, FY 19**

Products	Sum of Collected Revenue (Million Taka)	Sum of Collected Revenue (%)	Percent of total collected revenue (%)
Cereal	3647	3.91	0.50
Cereal and bakery foods	6007	6.44	0.82
Cocoa and chocolate	1038	1.11	0.14
Coffee and tea	1825	1.96	0.25
Dairy and eggs	8438	9.04	1.15
Fish	3673	3.94	0.50
Fruits	25550	27.38	3.48
Live animals	4	0.00	0.00
Meat	224	0.24	0.03
Nuts	3088	3.31	0.42
Other	4969	5.32	0.68
Spices	8225	8.81	1.12
Sugar and candy	2515	2.69	0.34
Vegetable oil & oilseeds	22655	24.28	3.08
Vegetables	1462	1.57	0.20
<b>Grand Total</b>	<b>93317</b>	<b>100</b>	<b>12.70</b>

Source: World Bank staff calculations using data from Bangladesh Customs.

**Bangladesh can work with neighboring countries on a cooperative trade initiative to refrain from imposing trade restrictions including export bans or taxes on critical food staples.** As part of the recently launched SAARC emergency initiative for Covid-19<sup>8</sup>, Bangladesh can lead a regionally coordinated response to avoid export restrictions to reduce the cost and improve the availability of key food products in the region. In general, export restrictions will only exacerbate the current situation. If export restrictions must be used, then they should be targeted, proportionate, transparent, and temporary. Furthermore, Bangladesh can work with Southeast Asian neighbors such as Malaysia and Indonesia (the main source countries for Bangladesh's imports of edible oil and palm oil) to eliminate existing trade restrictions and avoid lengthy and costly requirements related to trade licenses and permits.

<sup>8</sup> [https://www.business-standard.com/article/pti-stories/india-proposes-online-platform-for-saarc-to-jointly-combat-coronavirus-120032700199\\_1.html](https://www.business-standard.com/article/pti-stories/india-proposes-online-platform-for-saarc-to-jointly-combat-coronavirus-120032700199_1.html)

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World Food Program, 2020, COVID-19 and the 5 major threats it poses to global food security.





Product Name	Import Value (Million Taka)	Collected Revenue (Million Taka)	Effective tariff (%)	Custom duty (%)	VAT (%)	Advance Income Tax (%)	Regulatory Duty (%)
Soya beans, whether or not broken other than Seed, Wrapped/canned up to 2.5 Kg	0.0	0.0	26.7	0.0	15.0	5.0	0.0
Soya beans, whether or not broken other than Seed, EXCL. Wrapped/canned up to 2.5 Kg	60,799.7	0.0	0.0	0.0	0.0	0.0	0.0
Refined Soya-Bean Oil	15.0	2.2	15.0	0.0	15.0	0.0	0.0
Other cane sugar	0.0	0.0	64.1	2,000.0	15.0	0.0	20.0
Other cane sugar	66,626.5	1,478.2	45.7	2,000.0	15.0	0.0	20.0
Cane Or Beet Sugar, Containing Added Flavouring Or Colouring	0.3	0.2	43.6	4,500.0	15.0	0.0	20.0
Cane Or Beet Sugar, In Solid Form, Nes	816.6	299.4	38.1	4,500.0	15.0	0.0	20.0
Semi-Milled or Wholly Milled Rice	21.4	12.8	59.9	25.0	15.0	5.0	3.0
Semi-Milled Or Wholly Milled Rice	6,697.3	1,847.9	27.6	25.0	0.0	0.0	3.0
Source: World Bank Staff Calculation using data from NBR							