

Policy pointers

Growing demands of urban food consumption — which now constitute about 60–70 per cent of demand in Asia and more than half in Africa — are met largely by trade.

The prevailing view that urbanisation has led to a growing dependence on imports overlooks the successful response of domestic production and regional trade — much of it informal — to the growing demands of urban consumers, even in sub-Saharan Africa.

When using trade policy to strengthen the response of domestic agriculture and food producers to urban demand, policymakers must balance the interests of poor consumers (including many rural households) and rural producers.

To respond to rapid changes in consumption associated with urbanisation and income, policymakers need to look beyond trade policy towards an integrated food policy.

Trade winds: is free trade in food bad news for rural areas during rapid urbanisation?

City dwellers are driving more than half of the demand for food in Africa and 60–70 per cent in Asia. Trade meets that demand — urban consumers are linked to farmers and processors by supply networks that can span great distances. Whether rural areas are winning or losing from increased trade, however, remains uncertain. Urban areas can draw in imports rather than domestic suppliers because of proximity to ports, shifts in consumption, poor competitiveness or poor infrastructure. A working paper explores how urbanisation is transforming trade between rural and urban areas. It looks at the relative merits of trade and agriculture policy instruments, and unpacks some of the implications for policymakers.

Trading up

Trade with urban centres can be a boon to farmers in the rural hinterland. Farmers benefit from the concentration of consumers, which simplifies the market. And urban consumers often spend more on food per person than do rural consumers. Urbanisation, then, can encourage agricultural intensification, which has been absent from much of sub-Saharan Africa until recently.¹

In addition, the growth of secondary industries such as processing, packing, sorting and financial services promotes the growth of small towns. As they become trade hubs, these towns provide important non-farm employment, as well as opportunities to diversify livelihoods without migration.²

Trade can also, on the other hand, disconnect domestic consumption from rural production, especially where urban populations are

concentrated close to the coast; 40 per cent of the population of West Africa, for example, live in coastal cities. It becomes easier and cheaper to import food from world markets than to buy food from hinterland producers in their own country, especially if domestic infrastructure and supply chains are weak.

Buying food from international markets can drive a shift towards a 'global diet' of cereals (especially rice and wheat), edible oils and fats, animal products and processed foods. This can reinforce a dependence on imports at the expense of local production.

Urbanisation is also associated with shifts in politics. The growing power of urban consumers can steer policy in a direction of securing food supplies through importing cheaper goods and banning exports at times of global price hikes, rather than investing in the country's own agricultural systems.³

Trade can disconnect domestic consumption from rural production

So trade and trade policy are heavily implicated in both aiding and obstructing the emergence of 'virtuous cycles' of urbanisation and economic development of rural hinterlands. What is the

evidence of each scenario? And what are policymakers doing — and what can they do better — to get trade and rural transformation working synergistically?

An IIED working paper⁴ synthesises existing knowledge on the links between trade, urbanisation and associated shifts in consumption, and rural transformation. With a particular, but not exclusive focus on sub-Saharan Africa, the paper looks at trends in agrifood trade in developing countries, different trade policy responses and policy implications.

Trade and food trends

Over the past 50 years, least-developed countries, low-income food-deficit countries and net food-importing developing countries have all experienced a declining agricultural trade balance.⁵ Much variation exists between regions, however. Since the early 1980s, developing countries in Asia have been net food exporters; over the same period, sub-Saharan Africa has gone from an overall agricultural trade surplus to a US\$20 billion deficit.⁶ In general, the trade deficit in agriculture is expected to widen for developing countries, especially for cereals, edible oils and fats, animal feed (soybeans, soy meal, maize) and sugar.⁷

Domestic producers. The growing dependence on imports in sub-Saharan Africa overlooks the success of domestic production and value chains in meeting demand. Over the past five or six

decades, African farmers, traders, transporters and processors have met growing demands for food from within the region. In West Africa, despite rapid urbanisation and population growth, dependence on food imports has not increased over the past 30 years.⁸

Domestic producers have been successful at linking surplus food in rural production zones with major food deficits in urban areas. Supply chains that serve internal, mainly urban markets have been growing in sub-Saharan Africa. They are now considered fundamental to national food security.⁹

Regional trade. Another key trend has been the growth of regional trade. The long and complex supply chains that feed urban populations may extend beyond national borders. Food surplus areas of Benin, for example, supply maize to the Gulf of Guinea agglomerations.¹⁰ Apart from supporting economic growth, such trade also helps improve nutrition by diversifying diets.

As with domestic trade, a huge proportion of regional trade is informal. In East Africa, for example, an estimated 3 million tonnes of food staples was traded informally in 2013.¹¹ Political borders, however, can add significant costs of moving surplus food to food-deficit areas.

Global imports. The most contentious link between trade and urbanisation is the growth of imported commodities such as rice, livestock products, milk and processed food from the global market. In the 1990s and 2000s, there were concerns that subsidies for US and European farmers allowed them to sell products in developing countries below production costs. The 'dumping' of commodities such as milk powder, broiler meat and tomato paste, so the argument went, undermined domestic production and processing.

In recent years, producer subsidies have become less of a factor in distorting trade. But global imports can still out-compete local commercial suppliers through lower production costs, higher economies of scale and an integrated industrial sector to hone their comparative advantage. For example, transnational corporations (TNCs) export cuts of meat that are considered less desirable in premium markets; strictly speaking, this practice is not considered 'dumping', but it has the same damaging effect on developing country producers (see Box 1).

Global imports in developing countries do not all arrive from Europe and North America. Thailand, Vietnam, India and Brazil ship rice to Africa, making it the continent's largest commodity import. The benefits of this trade extend beyond TNCs — in some Asian countries, smallholder

Box 1. Winners and losers in the chicken wars

In 2014, imported frozen broiler meat accounted for 44 per cent of total consumption in sub-Saharan Africa. In some countries, competition from imported meat has hollowed out domestic production. Between 1997-2006, for example, Ghana's self-sufficiency in broiler meat dropped from 85 per cent to 5 per cent.ⁱ Ghana has been contemplating a ban on imported poultry meat and rice to spur local production.

Bans may have mixed outcomes, however. The African poultry sector consists of commercial producers and traditional/familial production. Research indicates that Ghanaian households prefer imported chickens for their convenience, but local chickens for their taste and origin.ⁱⁱ Frozen chicken imports thus compete more with industrial or semi-industrial breeders than with local traditional breeders.

ⁱ Wiggerthale, M (2007) Relationships with developing countries – the implications of CAP reform. Presentation to 'Future policies for rural Europe 2013 and beyond – delivering sustainable rural land management in a changing Europe.' http://www.fairer-agrarhandel.de/mediapool/16/163463/data/Oxfam_CAP_9_2007.ppt and <http://slideplayer.com/slide/5122198/>. / ⁱⁱ Woolverton, AE and Frimpong, S (2013) Consumer demand for domestic and imported broiler meat in urban Ghana: bringing non-price effects into the equation. *British Journal of Marketing Studies* 1(3) 16-31.

farmers produce rice for export. In addition, there are strong links between global and regional trade through 're-exports' and smuggling.

Urbanisation, imports and diets

Although domestic production and regional trade have grown strongly, the prevailing view remains that urbanisation has led to a growing dependence on imports. But is that truly the case?

Trade both responds to changing consumption patterns and is responsible for shifts in consumption behaviour. Both urbanisation and higher incomes are associated with shifts in diet and consumption patterns. Urban citizens eat fewer staple grains, more animal and dairy products, more processed food and a much greater proportion of food outside the home.¹²

Urban residents may prefer imports for several reasons, including price, convenience, cooking qualities and trust in a product's safety and integrity.¹³ Low-income urban households, for example, may prefer processed food, because they do not have the space, time or affordable fuel to prepare food from scratch in the home. In Bangladesh, Indonesia, Nepal and Vietnam, urban residents are spending an astonishing 73 per cent of their food budgets on processed food.¹⁴

The density of customers in cities, access to modern mass media and distribution infrastructure attract investment from domestic and foreign sources in livestock production, food processing, service and retail. In this way, foreign direct investment (FDI) sets the stage for the globalisation of food consumption patterns.¹⁵

Through FDI, TNCs can significantly increase the importance of imports in the overall food supply.¹⁶ But the domestic private sector, including informal food service, rapidly learns to compete against TNCs by selling similar products or using similar strategies such as franchised chains. Between 2007 and 2012, for example, the Chinese fast food market doubled, but foreign companies accounted for only 12 per cent of the market.¹⁷

This dynamic response by national processing and food sectors to changing consumption may explain why urbanisation does not necessarily lead to more food imports.⁹

The give and take of policy instruments

Governments have long tried to direct consumption and trade to strengthen links between urbanisation (and the consumption that

Box 2. Tariffs and agricultural transformation in Nigeria

Nigeria is Africa's largest rice importer. The commodity accounted for US\$1.9 billion of imports in 2013, and imports met half of the country's annual demand of 6 million tonnes. In 2012, Nigeria launched the Agricultural Transformation Agenda to reduce food imports by boosting production of rice and other key commodities. It increased tariffs, while providing incentives to stimulate domestic production and processing. Larger traders diverted shipments to Benin and Cameroon, from where they were smuggled into Nigeria. This led to a huge drop in Nigerian government revenue from customs duty, rice shortages on the streets of Nigeria and a doubling of prices. The government subsequently modified its policy, and delayed its goal of self-sufficiency in rice until 2017.ⁱ

ⁱ GAIN (2014) Grain and Feed Update: Nigeria Remains a Huge Export Market for Wheat and Rice, November; GAIN (2015) Annual Report Nigeria Grain and Feed; Adesparusi, Y and R Patch, R 'Journalists for Transparency'; Oxford Business Group.

goes with it) and domestic production using levers of trade and agriculture policy. But policymakers must strike a balance between the interests of their farmers and competitiveness of domestic agriculture and those of poor urban and rural consumers.

Trade. Unregulated imports can be a huge drain in foreign exchange and a missed opportunity for rural growth. Developing countries still have considerable scope in their trade policy to protect or stimulate production of sensitive domestic sectors, but banning imports to prop up domestic industries may make markets more volatile and riskier.¹⁸

National trade policy measures such as bans, tariffs or non-tariffs can be ineffective if neighbouring countries have different tax regimes (see Box 2). What's more, the big winners of trade measures may be industrial-scale agro-industries and rural elites rather than smallholder farmers who are less integrated into the market.

Agriculture. Rather than using trade tools, some analysts propose agriculture policy to stimulate investments that could strengthen domestic industry. In the case of Senegal, for example, increased domestic yields of rice apparently had a much bigger impact on reducing imports than tariffs.¹⁰ Others contend that market participation and commercial incentives from economic growth in the non-farm sector had the most dramatic effect on agricultural production.¹⁹

Better rural infrastructure — especially for trade between the hinterland and small markets, secondary towns and cities — is essential to help farmers respond to price incentives. Promoting synergies between the rural economy and

urban-based businesses can strengthen local economies and 'pro-poor' regional economic development.²⁰

Implications for policymakers

- **Food policy.** To respond to the opportunities that accompany changes in consumption associated with urbanisation and income, a profound change of focus is required. This should entail a shift away from agricultural policy that raises farm productivity of a few staples (and trade policy to protect the sector) towards an integrated food policy that meets emerging demand for non-grain products, especially horticulture, livestock and processed foods.
- **Processed foods.** Through land-use planning and natural resource management, local policymakers can pursue opportunities to set up food industry and processing facilities. This will help create jobs for rural labour in the non-farm rural economy, a critical consideration given that 11 out of 17 million people entering the labour market in sub-Saharan Africa live in rural areas.²¹
- **Informal economy.** Informal households and small and medium-sized enterprises (SMEs) are often the most entrepreneurial link in the value chain. Policymakers need to see SMEs as a potential vehicle for national and regional development rather than as a symbol of underdevelopment.

- **Vulnerable households.** Trade policy aimed at stimulating a rural response to urban consumption will land unevenly in the countryside. Households in areas with good market infrastructure may be net winners, while those remote from trade links and without diversified income may be net losers. The International Fund for Agricultural Development can play a particularly strong role here.
- **Trade and investment.** FDI is at least as important as trade in agrifood system transformation. Policy can also regulate FDI, for example to protect preserve diversity in food.

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This research was funded by UK aid from the UK Government and the International Fund for Agricultural Development (IFAD). The views expressed do not necessarily reflect those of the donors.



Notes

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