



Food consumption, urbanisation and rural transformation

The trade dimensions

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Growing urban demand for food – which now constitutes about 60–70 per cent of food consumption in Asia and more than half in Africa – is met largely by trade. This paper reviews evidence for what this trade means for rural areas, and for successful rural economic transformation. It also reviews trade and other policy options for generating a stronger ‘win’ between urban consumption and rural transformation.

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Summary

Growing urban food consumption – which now constitutes about 60–70 per cent of food consumption in Asia and more than half in Africa – is met largely by trade. This paper reviews evidence for the implications of this trade for rural areas, and for successful rural economic transformation. It also reviews trade and other policy options for generating a stronger ‘win’ between urban consumption and rural transformation.

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. Trade can be the fuel that allows urbanisation to be an engine of rural development, through demand for agricultural products and the associated growth of small urban trade and processing centres. On the other hand, urbanisation can draw on imports, and thereby block a production response from the rural hinterland. Urbanisation is also associated with shifts in politics away from producer interests towards those of consumers.

The prevailing picture of urbanisation being associated with rapid growth in import dependence is inaccurate, although least developing countries (LDCs) have seen a decline in their agricultural trade balance, especially for products associated with the ‘nutrition transition’: cereals, edible oils and fats, sugar, and animal feed (soybeans and soy meal, maize). Farmers, traders, transporters and processors, even in sub-Saharan Africa, have responded to the demands of rapid population growth and urbanisation. Supply networks to processors and urban consumers have grown, sometimes spanning great distances. These flows – which in many developing and emerging economies are predominantly informal – also contribute to the diversification of diets which has strong implications in terms of nutrition.

Import restrictions are being used to encourage a supply response from domestic production and to insulate producers from extremes of international price volatility. Some interesting large scale experiments such as Nigeria’s Agriculture Transformation Agenda are using border measures alongside other instruments to give a stimulus to domestic production and manufacturing

Protecting national agricultural sectors and consequent higher farm prices have welfare impacts, and policymakers have to weigh gains to producers against losses to consumers. But policymaking is no longer a question of weighing the interests of rural producers and urban consumers. Distinctions between urban and rural societies are blurring, with growing numbers of rural residents are dependent on the market to meet their food consumption needs. Rural consumers have little to gain and much to lose from trade measures designed to stimulate domestic production.

Employing national trade policy in pursuit of import substitution – whether via bans, tariffs or non-tariff measures – can be undermined by smuggling, poor infrastructure, or imperfect substitutability between imported and locally produced foodstuffs.

To respond to the opportunities that accompany rapid changes in consumption associated with urbanisation and income, trade policy is just one policy lever. A more profound change of focus in *agricultural* policy is required, towards a more integrated **food** policy. This involves a shift from raising farm productivity of a few staples, towards a strategy of meeting urban demand for non-grain products especially horticulture, livestock and processed foods.

Foreign direct investment (FDI) is at least as important as trade in shaping and responding to shifts in consumption. Policy can also regulate FDI, for example, on health grounds and/or in support of a more indigenous diet. Indeed, a new battleground of trade policy is the scope for countries to impose health-oriented conditionalities on FDI by transnational food companies.

1

Introduction

Growing urban food consumption – which now constitutes about 60–70 per cent of food demand in Asia and more than half in Africa (Reardon *et al.*, 2014a) – is met largely by trade. Urban consumers and a growing proportion of rural consumers are linked to farmers and processors by supply networks that can span great distances.

Whether **rural** areas win or lose from that trade, is the subject of much controversy.

On one hand, trade and investment are seen as the fuel that allows urbanisation to be an engine of rural development (UN Habitat, 2004). This is because urbanisation and economic concentration favour the development of market-oriented agriculture and associated growth of trade (OECD, 2013). Trading with urban centres can be a boon to producers in the rural hinterland both from the agglomeration effect (concentrated markets for farm production) and the fact that urban consumers often spend more on food per person than do rural consumers. Urbanisation thereby provides incentives for agricultural intensification, which until recently have been absent from much of sub-Saharan Africa (SSA) (Holmén, 2004).

The associated growth of first-level processing, packing and sorting, trading and finance enterprises can encourage the growth of small towns – as centres of services, processing and intermediation – thus providing

important non-farm employment and opportunities for livelihood diversification without migration (Lazaro *et al.*, 2014; Tacoli, 2015). These positive links between smallholder agriculture and the rest of the rural economy can be strong drivers of development, especially when farmers spend increased incomes on locally supplied goods and services (Wiggins and Keats, 2013).

On the other hand, trade can disconnect domestic consumption from rural production, especially under conditions of urbanisation, economic growth and globalisation. Growing urban centres can draw on imports through formal and informal trade – and can thereby block a production response from the rural hinterland. This can be particularly pertinent if domestic infrastructure and supply chains are weak. The concentration of populations in coastal cities, such as Dakar and Lagos, which are home to two-thirds of the national population of Senegal and a quarter of Nigeria's,^{1,2} can mean that the economics of supplying food via imports from the world market can trump provision from the hinterland. Imported staples such as cereals and edible oils are also retailed and purchased in rural areas.

Securing food from the international market can further drive the dietary transition towards preferences for the 'global diet' of cereals (especially rice and wheat), edible oils and fats, animal products and processed foods. The result can be a cycle of import dependence.

¹ 'In Nigeria, for example, about 20 million people (22.6% of the national population) live along the coastal zone; about 4.5 million Senegalese (66.6% of the national population) live in the Dakar coastal area. In Ghana, Benin, Togo, Sierra Leone and Nigeria, most of the economic activities that form the backbone of the national economies are located within the coastal zone.' (IPCC <http://www.ipcc.ch/ipccreports/sres/regional/index.php?idp=30>). Urban centres of Western Africa will have between 72 million and 94 million people by 2060 <http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0118571>

² Not so much in East Africa where many principal cities – with the exception of Dar es Salaam and Mombasa are located inland

Urbanisation is also associated with shifts in politics, and a growing voice of urban populations that can steer trade outwards to the global economy rather than inwards to the rural hinterland (Allen, 2009). Trade policy will then be more likely to support consumer food security, in the form of openness to cheaper imports, or export bans of staples at times of global price spikes, rather than investment in agriculture and national self-sufficiency.

Thus 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. Shifts in foreign and domestic investment in supermarkets, food brands and food service are also connected more strongly to global rather than national production. But what is the evidence, in Africa and other developing regions, for these scenarios? Is the rural 'win' from economic growth and urbanisation really being inhibited by trade, and are opportunities for 'virtuous cycles' between urbanisation

and rural development really being lost? Or are we misunderstanding the processes by which rural areas win or lose from urbanisation, economic growth and trade? In terms of policy, what are policymakers doing to get trade and rural transformation working synergistically – and what can they do better?

This paper is a synthesis of existing knowledge on the links between trade, urbanisation and associated shifts in consumption, and rural transformation. There is a particular but not exclusive focus on SSA. The paper is not primarily addressing the **export** side of agricultural trade, though it is clear that for the poorest of the rural poor, employment in export agriculture (especially horticulture and tropical commodities) can provide important livelihood opportunities for the rural landless or near-landless (eg Maertens *et al.*, 2011). The paper looks at trends in agrifood trade and investment in developing countries, the different policy responses, and concludes with policy implications and options.

2

What are the trends in trade in agriculture and food in developing countries?

Over the past 50 years, three groups of developing countries have seen a decline in their agricultural trade balance: least developed countries, low-income food deficit countries, and net food importing developing countries (Brooks and Matthews, 2015). There is, however, much variation between regions. Developing Asia has been a net exporter since the early 1980s. Over the same period, sub-Saharan Africa has moved from overall agricultural trade surplus to a deficit of US\$ 20bn by 2007 (Rakotoarisoa *et al.*, 2011). In fact, the real value of food imports per capita has been steadily rising in SSA since the 1990s, particularly for cereals (Tschirley *et al.*, 2013; Tschirley *et al.*, 2015; Figure 1). For West Africa, Chauvin *et al.* (2012) report an average annual growth rate in food imports of 5 per cent compared to annual growth in food production and food exports of 2 and 1 per cent, respectively.

The outlook for the agricultural trade of developing countries is for the deficit to widen further, especially for cereals, edible oils and fats, animal feed (soybeans and soy meal, maize), and sugar (OECD and FAO, 2014), greatly influenced by demand from China. The largest deficits for the next decade will be in Asia, for all commodities except rice, vegetable oils and fish (Table 1).

Figure 1. Value of net food imports per capita in SSA (minus RSA) and developing Asia, 1980–2011 (Tschirley et al., 2013)



Table 1. Predicted agricultural trade deficits of selected agricultural commodities by 2023: Volume of net-exports ('000 tonnes)

	AFRICA	ASIA AND PACIFIC	LATIN AMERICA AND CARIBBEAN
Wheat	-44,987	-49,963	-7,074
Rice	-18,052	21,083	-1,192
Coarse Grains (mostly maize)	-22,851	-63,999	21,795
Oilseeds (soya etc)	-3,494	-98,449	57,748
Protein meals (soya cake etc)	-4,461	-27,206	49,715
Sugar	-11,684	-17,342	38,337

Source: OECD-FAO Ag Outlook 2014–2023

2.1 The success of domestic production

The growing dependence on imports in countries of SSA should not, however, detract from the fact that the majority of the increase in demand over the past 50–60 years has been met by domestic production. Farmers, traders, transporters and processors have responded to the demands of rapid population growth and urbanisation. The FAO report *Why has Africa become a net food importer?* (Rakotoarisoa et al., 2011) observes that between 1961 and 2005, average per-capita

consumption for key imported commodities in Africa has remained fairly stable, supporting a similar conclusion by Pica-Ciamarra and Otte (2009). In SSA, imports are a relatively small proportion of total food consumed, accounting for 1–3 per cent between 2002 and 2011. In their paper for the OECD on the trade dimensions of food security, Brooks and Matthews (2015) note that despite the spikes in food prices, the cost of food imports for most countries relative to total imports and relative to foreign exchange earnings has been declining for decades, though less so for LDCs.

This is the case even in West Africa: in a period of rapid population increase and urbanisation, food dependence

on the rest of the world has not increased over the past 30 years. Agricultural production has risen much faster than population, allowing rates of undernourishment to fall by 45 per cent. Over the past 30 years, rice imports have increased by only 3.5 kg per capita, and have actually decreased when measured per capita of the urban population (OECD, 2013).

Much of the success of domestic production has been in linking rural food surplus production zones with major deficit urban consumption centres. Most of the trade within each country is informal. Supply chains to serve internal (mainly urban) markets have been growing and have become fundamental to national food security in SSA (Reardon *et al.*, 2014a). In four Asian countries, Reardon *et al.* (2014b) report that nearly all (about 95 per cent) of food demand is met by domestic supplies, and some two-thirds of those domestic supplies now pass via rural–urban supply chains.

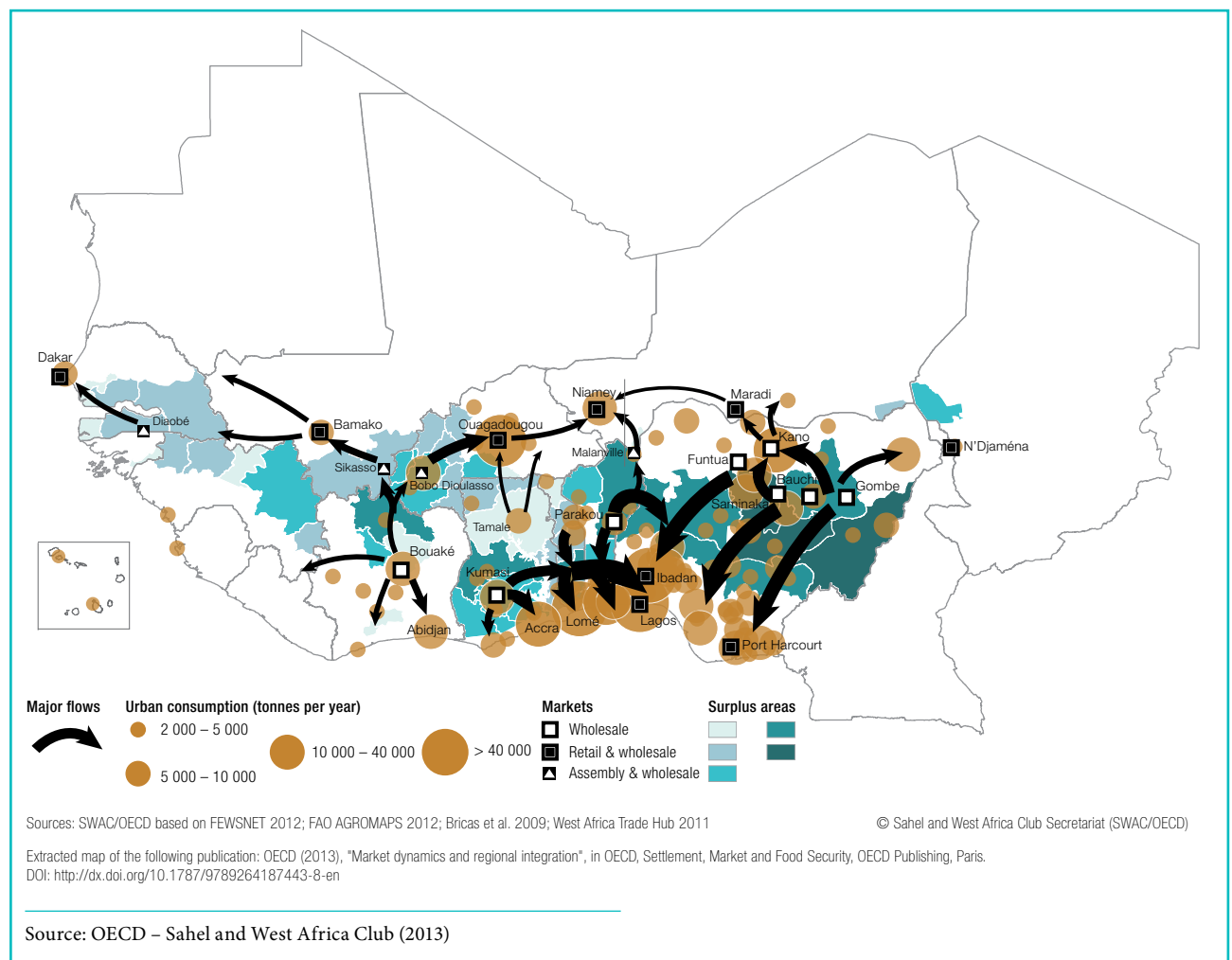
In many regions, the growth of domestic markets is becoming more interesting to farmers than exports of cash crops like tea and coffee, and is driving

investments in productivity. Reardon *et al.* (2015) give examples from Ethiopia, Mali, Senegal, Rwanda, and Kenya of how linkage to growing urban and regional markets has provided incentives for farmers to invest in soil conservation and fertility, and productivity enhancing inputs including seeds, breeds, fertilizer, and irrigation.

2.2 Growing regional trade

The long and complex supply chains that feed urban populations may extend beyond national borders. Especially in SSA, surplus food producing zones often lie across the border from their historical markets (Haggblade *et al.*, 2012, cited in Engel and Jouanjan, 2013). The importance of these regional rural–urban linkages is highlighted by Akkoyunlu (2013) as central to poverty reduction and livelihood improvements. The coastal conurbation of Nigeria, Benin, Togo and Ghana, consumes 2.5 million tonnes of maize alone (OECD, 2013), supplied from food surplus areas of Benin and northern Nigeria (Allen *et al.*, 2011; Figure 2), though trade can also flow in the opposite direction. Other surplus areas for maize are in South Africa, Northern

Figure 2. Regional flows of maize in West Africa



Mozambique, Southern Tanzania and Eastern Uganda. These flows also contribute to the diversification of the diet which has strong implication in terms of nutrition, as in the trade in cowpea from Sahelian countries to coastal cities.

As with domestic trade, a huge proportion of this thriving trade across borders is informal, and regional trade agreements have not curtailed this high level of informality (Golub, 2012). In East Africa, it is estimated that 3 million tonnes of food staples were traded informally in 2013³. Uganda is a food basket for the region (Govere, 2008), accounting for 72 per cent of total regional staple food commodity exports in 2013, with more than 1.2 million tonnes of grains and their products exiting the Ugandan borders, informally, each year (Fowler, pers comm.; USAID-COMPETE 2010). Actually there is not so much difference between domestic and regional food trade in terms of nature and level of informality. But the political borders that separate surplus food production zones from deficit markets add significant costs to moving food within these natural 'food sheds' (World Bank, 2012) – often in the form of bribes. As will be discussed later, informality is also an obstacle to using border measures such as tariffs to regulate the domestic market.

2.3 Imports from the global market

While domestic and regional trade is thriving with economic growth and urbanisation, the most highly publicised and contentious link between trade and urbanisation is the growth of imports from the global market of commodities such as rice, livestock products and milk, as well as processed foods.

Much concern was raised in the 1990s and 2000s around import surges into developing countries of subsidised commodities such as milk powder, broiler meat and tomato paste 'dumped' below the cost of production and undermining of domestic production and processing. But during recent high commodity prices, export subsidies have been less of a factor in distorting trade. The Producer Subsidy Equivalent (PSE) in the EU dropped from an average of 35 per cent in 1990–2000 to 18.4 per cent in 2014, which is close to average for the OECD, and prices paid to farmers are now much closer to world market prices. In the case of dairy, a Wageningen University study showed that the EU price for skim milk powder was not much lower than prices of other major suppliers such as New Zealand where there is little producer support (Meijerink and Achterbosch, 2013). With lower commodity prices,

export subsidies have again become significant, making the signing of the 'Nairobi Package' at the 10th World Trade Organisation (WTO) Ministerial Conference in December 2015 particularly relevant. With this new trade agreement, wealthy WTO members are committed to immediately remove subsidies for farm exports, except for 'sensitive' products including processed foods, dairy products and meat, which will be phased out by 2020.

Cotton: subsidies continue to harm developing countries

An important exception to this picture of subsidies and trade is cotton. As a cash crop, cotton is important to food and livelihood security of some of the poorest rural households in sub-Saharan Africa. The US cotton subsidy regime under the 2014 Farm Bill is estimated by the ICTSD to suppress world prices by nearly 7 per cent, which translates into global monetary damages to cotton-producing countries of nearly USD 3.3 billion annually (Lau et al., 2015). Reform of the cotton subsidy regime would generate an unambiguous development pay-off.

Competitiveness of global food imports has more to do with differences of scale, infrastructure, technology and consumer trust in product integrity. Supply-side constraints can tip the balance in favour of imports. Local commercial producers often face much higher production costs (including costs of finance), fewer economies of scale and lack of an integrated industrial sector. Another important factor is global strategy of transnational corporations (TNCs), for example in the marketing of cuts of meat that are less preferred in their premium markets, with poultry as the classic case. Because these cuts are effectively by-products from commercial production it is difficult to define their sale in developing country markets as dumping in the strictest sense;⁴ it is a combined result of comparative advantage in terms of production efficiency and market segmentation by agribusiness. That does not make it any less damaging to developing country producers.

The 'global' imports arriving in the markets of developing countries are not just from Europe and North America. The International Centre for Trade and Sustainable Development notes that the EU is not the major supplier of ACP agrifood imports, and accounts for only a quarter of the total in 2006–07, down from 32 per cent in 1996–97.⁵ The biggest commodity imports in Africa are of rice, shipped from Thailand, Vietnam, India and Brazil. Most of the rice exported from Asia is to a certain extent subsidised

³ 'Scope for attracting informal cereals trade into the formal sector'. CTA News and Analysis 06 November 2014. <http://agritrade.cta.int/Agriculture/Commodities/Cereals/Scope-for-attracting-informal-cereals-trade-into-the-formal-sector>

⁴ Selling in an importing country at prices below the normal selling prices in the exporting country, or, if normal selling prices cannot be determined, the selling price in the importing country is below the production costs in the exporting country plus a reasonable amount for administration, marketing and overhead costs as well as profits (Germanwatch, 2004)

BOX 1: RE-EXPORTS OF FOOD IMPORTED FROM THE WORLD MARKET AND INFORMAL CROSS-BORDER TRADE

Re-exports are goods imported legally through formal channels into countries with low trade barriers and then shipped unofficially in large volumes to neighbouring countries with higher barriers, with minimal or no processing aside from transport services. The re-export trade straddles the formal and informal sectors in a highly complex and well-organised system that operates quite similarly in different countries. Re-exports typically originate with large formal enterprises importing goods through unofficial channels. A sophisticated distribution chain then tranships through informal mechanisms.

Re-exports play a particularly significant role in trade between The Gambia and Senegal and in trade between Benin, Togo and Nigeria. They are a major contributor to government revenues, especially in The Gambia and Benin, because imported goods destined for re-export generally pay duties when entering the country before

being smuggled out. Consequently, trade taxes are even more important for these two countries than for most other African countries, accounting for about half of tax revenues in both. The commodities involved in re-exportation consist predominantly of basic consumer goods originating from Asia, Europe or the United States, for the average African low- or middle-income household. The main products are bulk food items such as rice, sugar and flour; processed foods such as tomato paste, cooking oil, condensed and canned milk, tea and soft drinks; fabric of various sorts; used cars; and other basic household items such as batteries, candles, and matches.

Source: Benjamin et al. (2014)

and regulated by the State. It is also noteworthy that rice imports into SSA come from countries where it is primarily produced by smallholders. So food imports are not only benefiting large commercial farms.

There are strong links between global and regional trade, in the form of re-exports and thriving informal cross-border trade (Box 1).

Example of rice

Rice has by far the largest share of cereals consumed in urban markets in SSA, estimated at 76 per cent in Burkina Faso, 92 per cent in Côte d'Ivoire, 60 per cent in Ghana and Senegal and 72 per cent in Nigeria (Elbehri et al., 2013). Imported rice has become especially important for food security of the urban poor; Moseley et al. (2010) report how it became very competitive as the cheapest calories in Ivorian cities, and is consumed by the urban poor in Mali in preference to local sorghum. In Senegal, rice has since the 1970s replaced millet as the most important staple food. A small number of powerful importers have had 'close links with smaller-scale retailers and street hawkers through a complex web of credit relations and religious ties' (Resnick, 2013). This situation has changed in recent years, and local importers are competing with India exporters who deliver directly to Dakar's wholesalers.

Urban populations are vulnerable to world price shocks; this was seen clearly in The Gambia and Côte d'Ivoire during 2007–2008 when the world rice price spiked. Moseley et al. (2010) report that urban Mali was spared the

worst of this crisis because the country was producing more of its own rice and the poorest consumers in rural areas shifted from rice to sorghum.

But large volumes of imports from global markets also reach rural areas that are in deficit – either because of poor agronomic conditions or specialisation in cash crops. The importance of imported rice to consumption in poor 'farming' households was observed in Senegal in 1981 by Josserand (1984) and more recently in Côte d'Ivoire by Dimova and Gbakou (2012). Estimates based on Food and Expenditure surveys compiled by Afristat and CIRAD show that in Economic Community of West Africa States (ECOWAS) countries, rice purchase from rural households represent more than 55 per cent of the total rice purchase in the region.

Example of dairy

Dairy is a well-documented sector where low-cost imports can drive fundamental restructuring of domestic markets. Imports of milk powder have been seen as responsible for failures to establish domestic dairy processing industries (and by extension, a market for rural producers) from Bangladesh (Curtis, 2011), to Mauritania (IRIN Africa, 2012), Jamaica (Griffith, 2002), and Cameroon (Brot für die Welt, 2010). Processors turn to reconstituting imported powdered milk rather than establishing a cold chain between domestic supply and consumption. An overview by the FAO (Manitra et al., 2011), however, cautioned

⁵ Imports from the EU to ACP countries are not only basic foodstuffs; beverages figure prominently in the total value imports in a number of ACP regions (ICTSD, 2010)

that disruptions to domestic markets – which are often dominated by informal trade – can be overstated.

Example of poultry

Another controversial ‘global’ import into developing country markets is broiler meat. Total broiler meat imports into SSA from all sources rose from 6,000 tons to 1981 to 1.22 million tons in 2014, accounting for 44 per cent of total domestic consumption (USDA-ERS, 2014). Apart from South Africa, the leading importers in 2011 were Angola, Ghana and Benin, with much of the Benin exports being smuggled to Nigeria despite a ban on the importation of frozen chicken.⁶ In some countries competition from imports has led to the hollowing out of domestic commercial production (Fritz, 2011). Self-sufficiency in Ghana is reported to have dropped from 85 per cent in 1997 to 5 per cent in 2006 (Wiggerthale, 2007).

Ghana has been contemplating a ban on imports of poultry meat and rice, on which it spends between US\$ 500 million and US\$ 600 million annually, to spur Ghanaians ‘to rise to the challenge of economic transformation, because we have the capacity to produce rice and develop our poultry industry as a value chain’.⁷ The ban has not yet been implemented. Ghana is not competitive in commercial poultry despite imposing a 20–40 per cent levy on chicken imports in an effort to boost national production.

Policymakers and civil society have used terms ‘near sell by’, ‘European leftovers’ and ‘unwholesome’ in describing the imported product. Even more disparaging is a campaign run by the civil society organisation ACDIC in Cameroon called “Chicken of Death” because of alleged food safety risks from breaks in the cold chain after importation (EED et al., 2007).

Surveys in Haiti and Cameroon by Laroche Dupraz and Ropars Collet (2009) show how households have substituted imports for local chicken and have increased net consumption of chicken. However, the authors found that imported chicken constitutes a second-best commodity compared to the domestic product, especially in Yaoundé, when preparing food for festivals. There are echoes from research in Ghana, which found that consumers prefer imported chicken on the basis of convenience, and domestic chicken on the basis of taste and origin (Woolverton and Frimpong 2013). The African poultry sector consists of two primary models of production: traditional or familial production, and commercial production. Imports of frozen chicken are not

so much competing with local traditional breeders but with industrial or semi-industrial breeders.

Animal feed: the hidden trade behind the dietary transition

Increased consumption of livestock products does not necessarily translate directly into higher import shares of these products. Imports of animal feed help expand domestic livestock production – and bring down the cost for low-income consumers – while reducing the need for direct imports of livestock products. This is largely a hidden trade aspect of the dietary transition; increasing global consumption of maize and soy is feeding an expanding livestock sector especially in developing countries (OECD-FAO AG Outlook 2014). For example, in 2013 Vietnam imported 5.84 million tonnes of animal feed worth US\$ 4 billion and equivalent to 48 per cent of the raw material needed to satisfy demand⁸. In the following year, Vietnam’s maize, soya bean and soya meal imports grew a further 30, 21 and 14 per cent respectively, in response to increasing demand from the domestic livestock and aquaculture sectors and shortages of domestic raw material (WATTAgNet).

Two other useful examples are provided by Peru (Box 2) and China (Box 3).

The recently agreed Trans-Pacific Partnership (TPP)⁹ will have a multi-layered impact on domestic livestock sectors, by reducing both the costs of imported feed and also the price of imported meat such as poultry, which will become more competitive with domestic producers. Under the TPP, import tariffs for maize, soy and other feed grains and oilseeds will be immediately or gradually eliminated over time; the example of Vietnam is described in Table 2.

What does this growth in the trade in animal feed and meat mean for rural transformation? Much growth in intensive poultry, dairy and aquaculture production is peri-urban or intra-urban, close to customers (de Leeuw et al., 1999). These may be intensive industrialised systems with concentrated ownership, or more dispersed semi-commercial systems. The impacts of cheaper feed may impact smallholder livestock systems that are less productive. Cheaper meat imports under TPP will displace many local suppliers especially of poultry, but in Vietnam at least it is expected that the commercial livestock sector will endure, in response to changing consumer demands (WATTAgNet). Feed

⁶ According to the Poultry Association of Nigeria, up to 95% of frozen poultry imports into Benin end up in Nigeria, CTA AgriTrade, September 2013. The Poultry Site, 2013

⁷ Government of Ghana to review poultry and rice sector trade policies. CTA AgriTrade 17 May 2014 <http://agritrade.cta.int/en/Agriculture/Commodities/Poultry/Government-of-Ghana-to-review-poultry-and-rice-sector-trade-policies>

⁸ REVALTER project <http://www.futurelivestock.net>

⁹ Signatories include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam

BOX 2: IMPORTS OF ANIMAL FEED IN PERU

Roast chicken with French fries (pollo a la brasa) is the most widely consumed dish in Peru. Chicken meat consumption in Peru increased by an annual average of 9.4 per cent and eggs by 6.8 per cent between 2005 and 2011. The poultry industry with average sales of USD 1.6 billion per year has grown to account for 22 per cent of agricultural GDP. The industry employs 280,000 people directly and more than a million indirectly. In 2011, over 1 million tonnes of chicken and 316,200 tonnes of eggs were produced and sold. The city of Lima accounts for 65 per cent of chicken meat demand and 60 per cent of eggs.

Yellow maize is a direct input for poultry production. In 2012 the industry required 3.7 million tonnes of maize feed. Argentina provides most of imported maize in Peru, 1.5 million tonnes in 2011. Peru's import bill for maize increased from US\$ 93 million to 543 million between 2000 and 2012. Maize accounts for 41 per cent of the total of cereal imports into the country, primarily as animal feed.

The poultry industry is interested in increasing national production and local procurement to improve competitiveness and become less dependent on imports. Domestic production of maize involves half of producers in the country across half a million hectares, much of it on farms with fewer than 5 hectares.

Source: del Pozo and Vorley (2015)

BOX 3: INCREASING RELIANCE ON ANIMAL FEED IMPORTS IN CHINA

China produces nearly all of its own meat. There has been a shift away from backyard livestock production based on household waste and crop residues to more specialised capital-intensive systems. There is a large domestic feed production especially maize – which in 2013 became China's largest single crop – utilising an estimated 75 per cent of the 2009 maize harvest. But the livestock sector is increasingly reliant on imported feed, with tacit policy acknowledgment of a need for imported maize and soy feed grains. Imports of feed are the primary driver of China's shift from net exporter of grains until 2007, to net importer. China's soybean imports, valued in 2013 at US\$ 38 billion, are expected to surge to over 110 million tonnes by 2023/24, while China's maize imports are projected to rise to 22 million tonnes by 2023/24. Soybeans are crushed with the meal used for animal feed and the oil for human consumption.

Sources: Ray (2009); USDA-ERS (2014)

Table 2. Effect of TPP on imported feedstuffs and meat in Vietnam, 2015

SOY COMPLEX (SOYBEANS, MEAL AND OIL)	CURRENTLY DUTY-FREE FOR SOYBEANS. ELIMINATE TARIFFS OF UP TO 30% FOR SOY PRODUCTS IN 11 YEARS
Other oilseed complexes	Eliminate tariffs in 4–7 years
Maize	Eliminate tariffs up to 20% in 4–7 years
Wheat	Eliminate tariffs up to 35% in 4 years
Pork	Eliminate tariffs up to 30% in 5–10 years
Beef	Eliminate tariffs up to 31% on fresh, chilled and frozen beef and 34% on all beef products in 4–7 years

Source: WATTAgNet

imports can have a net positive impact if they free up land for more profitable crops; in China, soybean imports have allowed farmers to specialise in producing maize, which gives higher yields and net returns than soybeans (USDA-ERS, 2014).

2.4 Is urbanisation associated with greater dependence on imports?

Both urbanisation and higher incomes are associated with shifts in diets, reflected in the trade patterns outlined above. Urban citizens eat fewer staple grains, more animal and dairy products, more processed food, and a much greater proportion of food consumed outside of the home (Kearney, 2010; Thow *et al.*, 2011; Gehlhar and Coyle, 2001). Income seems to be a much stronger driving force in this dietary transition than urban living *per se*, at least in Vietnam (Satterthwaite *et al.*, 2011) and in China, where increased consumption of livestock products such as poultry is more closely associated with wealth (disposable income) rather than urbanisation.

Does the dietary transition contribute to food import dependency? Trade both responds to changing consumption patterns and is responsible for shifts in consumption behaviour. Urbanisation plays a role in dietary transition, but is not creating import dependency *per se*. Imports from the world market are drawn in when local food producers are not able to respond to expanding demand.

Where there is preference for greater imports, it may be motivated by more than price. Other attributes including convenience, cooking qualities and trust in integrity and safety may be just as important (del Pozo and Vorley, 2015; Demont and Rizzotto, 2012).¹⁰ Low-income urban households are often lacking in housing space, time or affordable fuel to prepare meals in the home. There has been a rapid and marked shift to processed foods and food prepared outside of the home. The informal food service sector has played an extremely important role in both employment and food security of the urban poor. A 2004 FAO report cites a country case study in Tanzania which found that 70 per cent of caloric requirements of low- and middle-income households in Tanzania are reported to be met by street foods (FAO, 2004). Supply chains links between street foods and the rural economy versus imports are very poorly understood.

Processed food is as important for the poor as it is for the middle class (Tschirley *et al.*, 2015). Urban demand for processed food across Bangladesh, Indonesia, Nepal and Vietnam averages an astonishing 73 per cent of food expenditure, with highly processed foods¹¹ comprising 42 per cent (Reardon *et al.*, 2014b). In Peru in 2010, processed food consumption accounted for 40 per cent of household food expenditure while fresh products consumption stood at 26 per cent in the Coast, 32 per cent in the Andes and 40 per cent in the Amazon region (Gonzales, 2012).

Urbanisation, with its greater density of customers, access to modern mass media, and distribution infrastructure, attracts foreign direct investment (FDI) and domestic investment in livestock production, food processing, services and retail. As with food trade, FDI ultimately facilitates the globalisation of food consumption patterns (Hawkes, 2005 Popkin 1999; Kearney, 2010). Increasing levels of regional cross-border investments in agribusiness are reshaping domestic agrifood systems, such as the Thai-based CP Group's investments in Vietnam and elsewhere in ASEAN region. As FDI has risen, so has the proportion invested in highly processed foods for sale in the host market. A meta-survey of research on agribusiness FDI in sub-Saharan countries by Dentoni and Mitsopoulos (2013) found a dominance of food processing and beverages in investment projects. Hawkes (2005) viewed FDI as proving more effective than trade in generating sales of highly processed foods.

With better transportation systems and improved access to foreign suppliers, FDI can increase significantly the importance of imports in the overall food supply (Vorley *et al.*, 2007). But the domestic private sector, including informal food services, rapidly learns to compete against transnational companies by selling similar products, or using similar strategies such as franchised chains. The Chinese fast food market, for example, doubled between 2007 and 2012 to reach an estimated US\$ 161 billion, but foreign companies account for only 12 per cent of the market. Likewise the processed food market, which is growing rapidly and was valued at US\$ 140.4 billion in 2011, is dominated by local Chinese companies (Garnett and Wilkes, 2014). It is this dynamic response by national processing and food service sectors to shifts in consumption that may explain why urbanisation does not necessarily lead to a rapid growth in food imports. Rakotoarisoa *et al.* (2011) cite findings by Olivier Sudrie that urbanisation has not contributed to food import dependency. Tschirley *et al.* (2015) report that in East

¹⁰ Another driver of changed consumer preferences is food aid provided during conflict or natural disasters

¹¹ Food items that have received higher value added in larger-scale processing. These include breakfast cereals, restaurant foods, manufactured alcoholic beverages and soft drinks, and others

and Southern Africa, the share of food expenditure on imports does not rise with income in urban areas.

2.5 What is the role of trade openness?

Recent and rapid urbanisation in SSA coincided in the latter half of the 1990s with trade openness in the wake of structural adjustment. The policy trajectory shifted towards abandoning the goal of self-sufficiency and instead paying for imports through revenue generated from crops with a comparative advantage (Moseley *et al.*, 2010), and keeping food prices low for urban consumers.

Indeed, Djurfeldt *et al.* (2011) suggest that trade openness could explain why urbanisation and economic growth did not provide the expected boost to the rural economy in nine sub-Saharan countries. The authors comment that ‘cheap imports may have undermined domestic production [until] protective tariffs introduced following the collapse of the Doha Round’ improved commercial incentives for domestic producers from 2007 onwards with ‘positive effects on domestic staple food production’.

But trade liberalisation is hard to single out in terms of its impacts on demand and supply, and breaking the link between the two. This is because it has been accompanied by other structural reforms including the end of taxation of agriculture, the removal of producer and input subsidies, privatisation of input provision, the withdrawal of the state from market regulation (with the break-up or privatisation of parastatals, an end to many price stabilisation mechanisms, and dismantling of structures of import substitution), and withdrawal from (and hence demise of) the provision of extension services, as well as improved infrastructure. Furthermore, as noted earlier, any analysis of formal trade ‘openness’ also has to be viewed against the huge volumes of informal cross-border trade.

3

Policy responses

There is a long tradition of government intervention in markets to direct consumption and trade towards a stronger positive link between urbanisation (and associated consumption) and domestic production. The decision to use these instruments is as much a factor of the political economy of producer versus consumer interests, as it is a factor of commitments to trade policy agreements. There are balances to strike between interests of poor urban and rural consumers and rural producers, and between protecting a sector via trade measures or investing to improve its competitiveness.

3.1 Trade policy measures

Import restrictions

Import restrictions can be used to encourage a supply response from domestic production and to insulate producers from extremes of international price volatility.

In contrast to widely held perceptions of WTO bilateral and regional trade agreements, developing countries still have considerable latitude to use import restrictions to protect or stimulate production of sensitive domestic sectors. Economic Partnership Agreement (EPA) negotiations between the EU and regional trading blocs such as EAC, SADC, ECOWAS were difficult and protracted partly due to fears that by giving preferential access to EU products under a reciprocal arrangement, developing country producers and processors would be outcompeted by surges of EU products. In the final EU with ECOWAS, just over half of agricultural tariff lines in the Common External Tariff are placed in the 20 or 35 per cent tariff band, the two highest bands, and none are placed in the 0 per cent band (ECDPM, 2014). But this leeway has not yet been taken

up for internal country reasons such as lack of national government will, or urban bias of decision makers (Laroche Dupraz and Postolle, 2013).

In Senegal until the mid-1990s an import monopoly managed the marketing and fixed the prices of both imported and local rice. A substantial levy was imposed on imported rice, and some of the revenue was used to promote local production, though with little effect. But by the time of the 2007–8 food price spike, Senegal's political economy had shifted in favour of a vocal urban poor constituency, and former President Wade responded to the crisis with populist policies that suspended custom duties and VAT, introduced price ceilings and subsidies for rice distributors, and forged a five-year agreement with India to send around 600,000 tons of rice to Senegal annually (Resnick, 2013).

Import restrictions in the pursuit of improved supply response (and to mitigate risks of exposure to international market volatility) come in for heavy criticism, for making markets more volatile and therefore riskier (OECD, 2014). But the cost of unregulated imports can also be a huge drain in foreign exchange and a missed opportunity for rural growth. A prominent example is Nigeria, which in 2013 had an import total bill for food staples of US\$ 4.3bn. This import bill is especially heavy for the country to bear since the dramatic drop in world oil prices.

The development of national strategies for the management of imports in sensitive sectors, in the light of national aspirations for local sector development, has again become a priority across a number of sub-Saharan African countries.

Import restrictions (combined with incentives to stimulate domestic investment in production and processing) are

being employed in Nigeria, to ensure an effective supply response to growing domestic demand, especially for rice (Box 4). Likewise, Mexico announced in January 2015 that it would be reinstating import tariffs on rice ‘to promote production, processing and marketing of domestic rice and thus strengthen the competitiveness of its rice industry’. The country has adopted a 9 per cent tariff on imported paddy

rice, and a 20 per cent tariff on husked, long grain and other imported rice from all the countries which are not involved in Free Trade Agreements with Mexico (FAO-GIEWS).¹²

As noted earlier, much regional trade (including imports from the global market – Box 1) is conducted through the informal economy. As the Nigeria rice example shows (Box 4), employing national trade policy in pursuit of

BOX 4: NIGERIA’S AGRICULTURE TRANSFORMATION AGENDA TO REDUCE FOOD IMPORTS

In 2012 Nigeria launched the Agriculture Transformation Agenda (ATA) to significantly reduce food imports by increasing production of five key commodities that the country can produce, including rice, sorghum and cassava, and rationalising the tiers of government to better support private sector agricultural growth.

Nigeria is Africa’s largest rice importer, and the commodity accounted for US\$ 1.9bn of imports in 2013, with imports meeting half the country’s annual demand of 6 million tons. Imported parboiled rice is preferred in urban areas, while locally milled rice has been consumed mainly in the rice-producing rural areas.

For rice, the ATA goal was to increase domestic rice production to make the country self-sufficient in rice production by 2015, when an embargo on rice imports was scheduled and all rice millers were expected to shift to domestic procurement. One of four pillars of the ATA is increased import tariffs to promote self-reliance through import substitution.

Informal cross-border trade in rice rose dramatically after the tariff increases. The large traders diverted shipments to Benin and Cameroon, which have fluid borders with Nigeria. Benin’s imports rose from 200,000 tons of white or polished rice in 2012 to an additional two million tons of parboiled rice, and generated a surge in revenue from import duties. Meanwhile, the amount of rice legally passing through Nigeria’s ports in 2013 dropped to 100,000 tons, down from over two and a half million in 2012. As a consequence there was a huge drop in government revenue from customs duties, reportedly worth at least N80 billion (US\$ 492 million) in the first quarter of 2014 alone. There was scarcity of rice on the streets of Nigeria, and the price more than doubled.

As a result, Nigeria lifted the ban on rice imports via land borders. Rice traders without any investment in domestic

rice production now pay 70 per cent duty on rice imports, while investors in local rice production benefit from a 40 per cent reduction on that duty, until their production capacity comes on line. The price of rice has returned to former levels. The goal of self-sufficiency in rice production is now set for 2017. Due to falling revenues from oil, the government announced in February 2015 that it would no longer make foreign exchange available to rice importers in the country.

The ATA is looking beyond smallholders for part of the effort to raise domestic supply, to plantation scale production. The Dangote Group has acquired 150,000 ha of land across five states for the commercial production of rice paddy as part of a US\$ 1 billion rice project. Olam has announced a scaling up of rice sector investments to a total of 10,000 ha and has established an integrated rice mill in Nasarawa State with a capacity of 210,000 tonnes – reportedly the largest on the African continent. Investments in 100 rice mills have been made with the assistance of US\$ 1.25 billion in funding from China’s Exim Bank.

In 2012, the Nigerian government also raised duty on wheat grain and flour, and started enforcing a cassava blending policy, at an initial rate of 10 per cent blending of cassava flour with wheat flour, increasing to 40 per cent by 2015.

Sources: GAIN Grain and Feed Update: Nigeria Remains a Huge Export Market for Wheat and Rice, November 2014; GAIN Annual Report Nigeria Grain and Feed, April 2015; Journalists for Transparency,¹³ Oxford Business Group¹⁴

¹² <http://www.fao.org/giews/food-prices/food-policies/detail/en/c/274691/>

¹³ ‘Nigerian government aims to undo booming rice smuggling market’, Bolanle Omisore, Yinka Adeparusi and Ryan Patch. Journalists for Transparency. <http://j4t.org/rice-smuggling.php>

¹⁴ <http://www.oxfordbusinessgroup.com/news/nigeria-full-swing-rice-production>

import substitution – whether via bans, tariffs or non-tariff measures – can be very difficult and provide incentives for smuggling when neighbouring countries have very divergent tax regimes. An example is Senegal, which in 2007 had higher (and sometimes much higher) trade taxes than neighbouring Gambia. Differentials of 80 per cent for sugar, and around 30 per cent for flour, tomato paste and cooking oil were big drivers of the Gambian re-export business (Golub, 2012).

Seasonal trade restrictions

An alternative to permanent tariffs or import bans to protect domestic sectors is the use of seasonal trade restrictions. Senegal's Agency for Market Regulation (ARM) is a case in point (Box 5). The government uses seasonal import restrictions when local onion production is available plus a range of measures to improve the competitiveness of the sector including investment in storage infrastructure.

But do import restrictions really stimulate domestic production?

Import restrictions are designed to use the price mechanism to stimulate farmers' investments in productivity and thereby generate a domestic supply response. But the jury is still out on the use of price mechanism to stimulate smallholder investment in productivity and intensification. Effective transmission of price signals into production depends on the degree of market integration, the bargaining power of producers in their trade with intermediaries, and in the capacity of their farming system to raise output. The impact of tariff and non-tariff barriers can be limited because the local food chain and market are not always efficient enough to transmit price incentives (del Villar and Lançon, 2015).

Opportunities from urbanisation therefore differ greatly between rural areas, with winners concentrated in particular villages and many losers with the smallest farms, poor access to markets channels, persistent yield gaps and lack of marketable surplus and lack of non-farm income (Djurfeldt et al., 2011). Not all rural towns have developed as hubs of production and consumption and service linkages to the agricultural areas. Some will be enclaves

BOX 5. PROTECTING LOCAL PRODUCTION IN SEASON: SENEGAL'S AGENCY FOR MARKET REGULATION

Senegal still imports 60 per cent of its basic food products, with rice, onions and poultry, powdered milk and tomato paste high on the list. Senegal is an important market for EU onion exports, importing over 133,000 tonnes in 2012 compared to domestic production of around 240,000 tonnes. World price shocks can therefore be felt directly in local markets.

But some significant progress has been made in selective use of trade policy measures to support the domestic sector, particularly through the creation of the Agency for Market Regulation (Agence de Régulation des Marchés ARM) in 2002. Seasonal import restrictions have created commercial space for investment in development of the sector without permanently inhibiting trade. The ARM has the power to impose temporary import bans to support national production and regulate prices. Those controls have increased production of onions, tomatoes and milk while a ban on poultry imports since avian flu has contributed to the sector's development.

Dialogue and consensus-seeking bodies have been set up for the main commodities, but trying to harmonise interests of all actors in the chain from national producers, to importers, food processors and retailers has not been easy.

Problems with importers and retailers still persist and prices often increase because of speculation. There were reports of stockpiling of imported onions prior to the implementation of seasonal restrictions and their gradual release through the closed import period. In order to address this issue, in 2013 the starting date for seasonal import restrictions was brought forward from April to February. In addition, the government announced that it would 'facilitate' the granting of import authorisations to importers who commit to promoting the marketing of local production.

Sources: del Pozo Vergnes and Vorley (2015); AgriTrade 'Senegal refines its onion import regime', 3 June 2013

with weak linkages to the surrounding rural area, in which case urbanisation per se may have little effect on the local agricultural economy (Reardon et al., 2014b). A less well understood factor in price transmission is the segmentation of local and imported food markets, as already noted for the poultry sector. For rice in West Africa, Laçon et al. (2011) and del Villar and Lançon (2015) point to imperfect substitution between imported rice and locally produced foodstuffs; local rice is not a perfect substitute for the imported. Such segmentation limits the level of incentives to boost food production in response to an increase in tariffs on imported cereals.

This raises the question of where the supply response comes from. If we look at the Nigerian use of trade measures to substitute imports with domestic production (Box 4), the big winners may be industrial-scale agro-industries and rural elites rather than smallholdings that are less strongly integrated into the market.

Are higher prices good for rural development?

There are important welfare benefits of cheap imports for developing country consumers, considering rapid urbanisation and the fact that many rural poor are also net food buyers. Rural households are indeed increasingly meeting their food needs through the market. In rural Asia the commercialisation of food consumption is especially high: in Bangladesh and Indonesia, about 80 per cent of rural food consumption is purchased from the market, for Vietnam 72 per cent, and Nepal 58 per cent (Reardon et al., 2014b). The rural poor with little agricultural land are particularly vulnerable to food crises, and may have little to gain and much to lose from trade measures designed to stimulate domestic production.

Aksoy and Isik-Dikmelik (2008), however, challenge the assumption that high food prices are bad for the rural poor. Even if only a minority of rural population (net food sellers) benefit directly from higher food prices, there are wider positive impacts on the rural poor through higher local demand for labour and non-farm goods and services. Even in Bangladesh, where half the poor are rural landless, many of those rural poor will be working for other farmers. Macroeconomic models have indeed shown that the poor ultimately benefit from higher food prices, via an agricultural supply response and consequent wage adjustments (Headey, 2014) and through a transfer of income from higher income net food buyers to lower income net food sellers (Aksoy and Isik-Dikmelik, 2008). The positive impact of higher food prices on net food

selling rural producers has been recorded in practice in Mozambique (Arndt et al., 2008). But with reference to Uganda, Benson et al. (2008) make the important point that for broad economic growth and poverty reduction from this opportunity, consideration must be paid to how the increased income these relatively few households that are net sellers of food crops is invested. The negative impacts of higher domestic food prices on the most vulnerable groups – urban poor, rural landless and net food buyers (Ruel, et al., 2010) – can be reduced through targeted social payments, or strategic reserves of public stocks that provide a food safety net for poor households.

3.2 Agricultural policy and other non-trade measures

If trade instruments are blunt tools, and may not generate the desired rural ‘win’ from urbanisation and growth in demand, what other policy levers are available to strengthen the link between economic growth, urbanisation and rural development?

One school of thought emphasises the importance of broader investments in agricultural productivity (via agricultural policy) to stimulate a domestic supply response to urban demand, and protect farmers from competition from imports,¹⁵ rather than trade measures. Modelling of policy scenarios in Senegal found that the biggest impacts on reducing rice imports could be obtained from increases in yields from domestic rice and coarse grain production; a doubling of the import tariff (from 10 to 20 per cent) only generated a 5 per cent decline in imports compared to the baseline scenario (OECD-FAO, 2014). There is evidence that domestic supply is displacing imports where there is strong policy investment in sector productivity and infrastructure, such as Côte d’Ivoire’s Revised National Rice Development Strategy (2012–2020). Analysis by the International Food Policy Research Institute (IFPRI) recommends that to generate a supply response from smallholders, more emphasis should be placed on reducing production costs through technological change and expanded input use, rather than relying on higher food prices to stimulate production (Chapoto, 2013).

Djurfeldt et al. (2011) found evidence from nine sub-Saharan countries on the other side of the argument about whether agricultural productivity is a prerequisite for a supply response to economic growth and urbanisation. Time series data showed that market participation and commercial incentives from economic growth in the non-

¹⁵ Farmers can be also protected in part by employing market-based risk management tools (Brooks and Matthews, 2015)

farm sector had the most dramatic effect on changes in production, with 80 per cent higher yield increase for those who started or increased maize sales during the period 2002–08.

Improvements in rural infrastructure, especially for trade links between the rural hinterland and small markets and secondary towns and cities (including high-density settlements which may not yet be officially recognized as ‘urban’), are essential for farmers to respond to price incentives. Improving the backward and forward linkages between agriculture, manufacturing and service sectors to promote synergies between the rural economy and urban based businesses ‘can enhance the development

and sustainability of local economies and promote “pro-poor” regional economic development’ (Akkoyunlu, 2013). Relatively good internal transport infrastructure, as well as high level of self-sufficiency is attributed by Moseley et al. (2010) for the low impact of the 2007–08 price spikes in Mali.

4

Conclusions and policy implications

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. There are stabilising and destabilising effects of increased agricultural trade and agrifood investment.

The prevailing picture of urbanisation being associated with rapid growth in import dependence is inaccurate, although LDCs have seen a decline in their agricultural trade balance. Even in sub-Saharan countries, farmers, (mainly) informal domestic and regional traders, and dynamic processing and food service sectors have largely kept pace with rapid population growth, urbanisation and shifts in consumption.

But the costs of unregulated imports can be a huge drain on foreign exchange, can be a missed opportunity for rural production, and can hollow out domestic processing sectors. Some large-scale experiments, such as Nigeria’s Agriculture Transformation Agenda, demonstrate that border measures alongside other instruments, can give a stimulus to domestic production and manufacturing.

Policymaking is no longer a question of weighing the interests of rural producers and urban consumers.

Distinctions between urban and rural societies are blurring, with growing numbers of rural residents dependent on the market to meet their food consumption needs. The political economy of trade policy is certainly shifting towards urban consumers, to the extent that countries are not taking up

all protection options within WTO and EPA agreements, although producers often still hit above their weight even under advanced urbanisation.

Trade policy and the use of border measures is a blunt tool to stimulate rural transformation in the face of urbanisation and economic growth. It usually focuses on a small number of strategic commodities, and it can provide a huge boost to smuggling across borders. Governments must deal with the political fallout in the form of lobbying or social unrest, both in the establishment of these policies and later in their dismantling, because of the powerful vested interests that are created. This could be by vocal urban consumers at the expense of more politically disenfranchised farmers and rural wage earners (Headey, 2014; Resnick, 2013). Or it could be in the form of organised producer interest groups campaigning against government response to price spikes against the interests of the urban poor (Cohen and Garrett, 2010; Ruel et al., 2010). Or it could be a sector lobbying for protection from import competition, described by Johnson (2011) in the case of poultry imports in Ghana, Cameroon and Senegal. Or it could be lobbying against trade protection by well-connected importers.

To respond to the opportunities that accompany rapid changes in consumption associated with urbanisation and income, trade policy is not enough. A more profound change of focus in agricultural policy focus is required, towards a more integrated food policy. This involves a shift

from raising farm productivity of a few staples, towards a strategy of meeting urban demand for non-grain products especially horticulture, livestock and processed foods. The current mismatch between a policy obsession with grains and the reality of diversified consumption is highlighted by data from Reardon et al. (2014b) from Bangladesh, Nepal, Indonesia and Vietnam. They show non-grain foods averaging 74 per cent and 64 per cent of total expenditure in urban and rural areas respectively of these four countries. Non-grain expenditures are still the majority of expenditure even for the poorest sections of urban and rural populations.

A refocusing of policy is also required with respect to processed foods. Local policy under decentralisation can provide (via land use planning and natural resource management) opportunities for the establishment of food industries and processing facilities. This role of rural industrialisation provides opportunities for rural labour in the non-farm rural economy; this is especially important for rural transformation considering that in SSA, 11 million of the 17 million people entering the labour market every year live in rural areas (Losch/Ruralstruc, cited in Proctor, 2014).

Local policy, while clearly important in ensuring that rural areas rather than importers 'win' from urbanisation and economic growth, will not fully deliver on its potential without a governance framework for sub-national territorial economic development that transcends 'rural' or 'urban' policy silos (Berdegue and Proctor, 2014). Local authorities are, however, faced with major challenges including financial over-dependence on central government and lack of capacity to collect and manage revenue. Governance is very difficult when 'food sheds' straddle borders over long distances, and where trade is informal; it requires policy awareness of the particular importance of informal household and SME enterprises, which are often the most important and most entrepreneurial link in the chain (Proctor, 2014). The lack of recognition of the informal economy in public policy partly reflects policymakers' view of the informal and SME sectors as symbols of underdevelopment rather than a potential vehicle for nationally/regionally appropriate development (Bricas and Broutin, 2008).

Trade policy aimed at stimulating a rural response to urban consumption will land very unevenly in the countryside.

Benefits will be stronger for households in areas with good market infrastructure. Households at the margins, remote from trade links with urban areas and without diversified income streams, may be net losers. It is here that IFAD has a particularly important role.

The transformations being wrought by urbanisation make the objective policy coherence for development more complex. But countries that are seeking a rural 'win' from economic growth and urbanisation need countries and blocs, including the EU and OECD, to evaluate their subsidy regimes and trade and investment policies for alignment with that goal.

Trade and investment both shape and respond to shifts in consumption. FDI is at least as important as trade in agrifood system transformation, because of its role in reshaping food processing, retail, and food service, and thereby shaping both food production and consumption. In addition to regulating imports and exports of food, policy can also regulate FDI, for example, to protect preserve diversity in food retail (Vorley, 2008) or to protect public health and/or in support of a more indigenous diet, such as Peru's promotion of the 'Andean diet' under the slogan *Come rico, come sano, come Peruano* (del Pozo and Vorley, 2015).¹⁶ Imposing health-oriented conditionalities on FDI by transnational food companies (Hawkes, 2005) has become controversial in agreements such as TPP. Transnational food corporations could potentially be able to sue governments if they try to introduce health policies that food companies claim violate their privileges in the TPP; even the potential threat of litigation could greatly curb governments' ability to protect public health (Friel et al., 2013). Trade and investment policy have legitimate roles in shaping urbanisation and consumption, and preserving that policy space is going to be critical for 'virtuous circles' of urbanization and rural transformation.

¹⁶ please supply

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Growing urban demand for food – which now constitutes about 60–70 per cent of food consumption in Asia and more than half in Africa – is met largely by trade. This paper reviews evidence for what this trade means for rural areas, and for successful rural economic transformation. It also reviews trade and other policy options for generating a stronger ‘win’ between urban consumption and rural transformation.

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