

## Policy pointers

**Rapid urbanisation in Asia** is transforming relations between rural and urban areas, and shifting patterns of food consumption.

**Many countries are privileging large-scale agriculture over smallholder family farms** and formalising the supply chain to meet the needs of urban consumers and modern supply chains. The informal sector, however, continues to play an important role in food systems.

**An emerging narrative** recognises the need to leverage urban-rural linkages for more inclusive development.

**More research on rural-urban transformation** is needed in key areas, including consumption patterns beyond the big cities, alternative routes to food-secure growth, more evidence-based approaches to food safety and the implications of both informal and formal cross-border trade.

# Food consumption, urbanisation and rural transformations in Southeast Asia

By 2050, nearly 63 per cent of the total population of Southeast Asia is expected to live in urban areas. Not only is urbanisation profoundly changing urban-rural relations, it is also shifting patterns of food consumption. Governments in the region are modernising food systems, in part to meet the needs of urban consumers for greater food quality and safety. But policies are not always based on evidence, and the focus on large-scale agro-industry and modern retail can undermine the informal economy, which is still important for food security and employment. An emerging narrative recognises the need to leverage urban-rural linkages for more inclusive development.

At a December 2014 workshop in London, participants laid the groundwork for a new understanding of food security. They identified key issues such as changes in consumption patterns in both urban and rural settings; the importance of mapping the origins of food; the blurred boundaries between rural and urban areas, and its implications for food; the need for more inclusive policymaking; and the rise of the informal sector.

Building on these themes, IIED and the research consortium MALICA held a follow-up workshop in Hanoi, Vietnam in October 2015, the second of three regional meetings. The 50 participants explored emerging food security trends as they affect Southeast Asia. While discussion focused on Vietnam, researchers also offered perspectives from China, Indonesia and the wider Southeast Asian region.

In 2014, 53 per cent of the world's urban population was living in Asia.<sup>1</sup> Between 1980 and 2010, the urban population of China alone grew from 191 million to 636 million.<sup>2</sup> By 2050, nearly 63 per cent of the total

population of Southeast Asia is expected to live in urban areas.<sup>3</sup>

Urbanisation is particularly apparent in Vietnam. According to official data, the country's urban population grew from 19 per cent of the total population to 26 per cent between 2000 and 2010. These figures, however, draw attention away from a more profound economic shift affecting rural areas in Vietnam. Large villages and small centres have emerged as hubs for services, processing and trade, while rural and urban areas are more closely linked by infrastructure and information networks. As urban and industrial areas grow, rural areas are losing farmland and falling behind economically.<sup>4</sup>

Food consumption is also changing markedly in Vietnam, with consumers spending less of their food budgets on staples. For example, between 1993 and 2012 the share of rice in food expenditures dropped from 36 per cent to 13 per cent. In addition, the demand for dairy products has steadily increased over the past six decades. From having virtually no dairy market in the 1950s, Vietnam has developed trademarked

products (such as TrueMilk) and a vibrant market for fresh and powdered milk, and other dairy products. Consumers also buy more processed food and eat more food outside the home.<sup>5</sup>

## *Traditional distinctions between and within rural and urban areas are blurring*

These shifts in consumption patterns are blurring traditional distinctions between and within rural and urban areas. Meat consumption in urban areas remains higher than in rural areas, but the

gap is narrowing. Between 2002 and 2012, it increased by 62 per cent in rural areas of Vietnam, compared to 18 per cent in urban areas. Processed foods, once concentrated in urban centres, now make up on average 59 per cent of total rural food expenditures in Bangladesh, Indonesia, Nepal and Vietnam. Within urban areas, both low- and middle-income households are consuming more processed food.<sup>6</sup>

### **A shift to a larger scale**

Urbanisation and changing consumption patterns are having profound impacts on food systems. According to workshop participants, policymakers believe that large-scale agro-industry can attract investment and keep food safe more efficiently than subsistence farmers can. In this way, the argument goes, countries can better meet the food needs of consumers, particularly in urban areas.

In Vietnam, the Agricultural Restructuring Plan of 2013 shifted the focus from smallholder family farms and land reform to linkages between large-scale production and trade. This 'industrial turn' drives food systems towards more vertical integration of supply chains.

For the livestock sector, vertical integration takes the form of contracts with farmers for standardised products, leaving less room for collectors and wholesalers. The dairy value chain has focused on developing large industrial private firms. These firms receive an increasing share of government support for credit, training and other services, at the expense of smallholders.<sup>7</sup>

In China, policymakers view the large number of small and scattered landholdings as an obstacle to developing modern agriculture. The Chinese government's 12th Five-Year Plan has set a target for 38 per cent of dairy farms to hold more than 100 animals. It also aims for 50 per cent of swine farms to have a slaughter population of more than 400 animals.

Over the past five years, China has introduced a host of policies related to food safety, industry and supply chain development, industry upgrading, land zoning and protection. Some of

these measures promote new kinds of rural-urban linkages by connecting producers with the processors, distributors and, in some cases, retailers and consumers of food. Others include periodic clamp-downs on unlicensed traders, small processing factories and local markets. These measures may have consequences for the price, variety and availability of food, as well as for vendors' livelihoods.<sup>8</sup>

### **Surprises and gaps in regional trade and investment**

The shift in consumption associated with urbanisation fuelled expectations of much greater volumes of imports such as milk. It was feared these imports might destabilise domestic agriculture in the region. In fact, the domestic industry in many countries has responded positively to growing demand, capturing some of the market from importers.

Still, increasing demand for animal protein in Vietnam is driving imports of animal feed, which now outweigh the export value of rice. The issue of feed imports has highlighted the need to better understand the role of free trade agreements in the region, as well as the role of China in 'feeding' Hanoi through both formal and informal cross-border trade.

Participants pointed to major data gaps in regional trade. For example, Cambodia produces 8 million tonnes of rice every year, yet reports only 3 million tonnes of consumption and 1 million of exports. The 'missing' 4 million tonnes probably stems from informal cross-border trade to Vietnam and Thailand.

The nuances of cross-border agribusiness investments in the region must also be better understood. For example, regional companies have more leeway than global conglomerates. It is well known that CP Group, the Thai-based integrated agro-business company, is aggressively investing across Southeast Asia in anticipation of a single market in the region. National statistics fail to capture these dimensions of the regional investment strategy landscape.

### **Resilience of the informal sector**

Many governments consider the informal sector as a threat to modernisation and food safety, and enact policies to shut it down. Yet the urban poor – including consumers, traders and producers – are heavily reliant on informal food vendors and markets. Efforts to modernise food systems, then, can be at odds with broader policies to alleviate poverty and food insecurity.

Poverty alleviation is a major policy objective in Vietnam. Despite the continued importance of

traditional markets for the urban poor, the government wants to shut down the informal sector. It believes informal trade undermines modernisation and food safety, creates traffic problems and encourages illegal migration. Policy dialogue between informal vendors in Hanoi and local authorities has helped achieve a compromise of 'restricted tolerance' (see Box 1).

Some cities in Indonesia have pushed the idea of 'restricted tolerance' still further, but their approach has created new challenges. Local governments have set up designated vendor centres in designated areas as part of the country's push towards inclusive modernisation. Formal vendors pay a fee to operate within the market. Informal vendors, however, avoid fees by setting up just outside the market, and offer customers more competitive prices. Some formal vendors, in turn, leave the official marketplace to intercept customers in the informal zone. All this creates traffic congestion and hollows out the formal marketplace.<sup>9</sup>

### The drive for food safety

Across Southeast Asia, food safety has emerged as a dominant policy issue. Urban consumers, particularly in Vietnam and China, are becoming more concerned about tracing the origin of their food. Consumers are also making a connection between safer food and better health.

Different sectors are engaged in promoting food safety. Vietnam's national and municipal governments have identified clean zones of production, promoted modern distribution systems and encouraged vertical integration and certification to create a supply chain to ensure 'safe' vegetables. In the absence of good public information on food safety, the media has played an important role in shaping public opinion.

Despite the involvement of 40 primary processing facilities with businesses and cooperatives, the 'safe vegetable' programme has not worked well in Vietnam. Certification raises the price for processors, who cannot always recoup their investment through higher prices. Faced with regular losses, producers and processors often return to traditional vegetable production.

In China, concern for food safety is a key driver of modernisation, again shaped by the media. The dominance of small-scale enterprises is seen as part of the food safety problem. In 2007, the food processing sector included more than 448,000 businesses, of which almost 353,000 had fewer than ten employees and half had improper licences. Given highly competitive markets, policymakers fear these small businesses will put profits ahead of safety. The relationship between scale and safety, however, is unclear.<sup>2</sup>

### Box 1. A compromise for street vendors in Hanoi<sup>1</sup>

Although Vietnam has been pushing for modern approaches to food systems, the informal sector remains resilient. Customers prefer to buy from street vendors for affordability, convenience and freshness, as well as the possibility to build trust with the vendor. In 2009, 58 per cent of vegetables were sold by street vendors in Hanoi compared to 1.3 per cent by supermarkets. The same year, however, municipal authorities prohibited street vending on 63 major streets and some 48 public spaces.

Through meetings with authorities, stakeholders spread awareness on how informal vendors help meet the food needs of the poor. Working together, authorities, vendors and communities reached a compromise of 'restricted tolerance'. In pilot communities, vendors were allowed to work freely within certain times in return for respecting rules such as cleaning up.

<sup>1</sup> Moustier, P *et al.* (2009). Are supermarkets poor-friendly? Debates and evidence from Vietnam. In: Lindgreen, A, and Hingley M (eds). *The Crisis of Food Brands*. Gower Publishing, Farnham, UK.

### More inclusive development

As urban demand increasingly drives rural transformations, a new narrative is emerging that recognises the need to leverage urban-rural linkages for more inclusive development. Workshop participants presented a diversity of models with varying levels of farmer participation and control.

**Governance.** In Vietnam, governance of food systems is shifting to meet the needs of urban interests. In 2008, the municipal territory of Hanoi expanded threefold, making the city more 'rural'. This has created a new role in food and agriculture systems for municipal government, which aims to make Hanoi quasi-independent in terms of its food needs. To that end, it promotes investment in technology and innovation to increase production, and improve quality and safety. To date, however, the city has fallen short of meeting the food demands of its 10 million residents. It continues to import meat, fish, fresh milk, rice, vegetables and fresh fruit from other cities and provinces, or from the world market.<sup>10</sup>

**Agriculture, trade and services.** Rapid urbanisation and industrialisation have had multiple impacts on rural Vietnam since economic reforms were introduced in the mid-1980s. In a 2006 study, researchers reported that three rural settlements in the Mekong Delta focused on specialty fruits were thriving amid all the socioeconomic changes. The increasingly blurred distinctions between rural and urban areas helped generate economic growth and reduce poverty, although income inequality grew. Nearly a decade later, the settlements were still benefiting from rural-urban transformation, but new challenges had emerged such as weak quality standards, water pollution and waste, climate change, and population and urbanisation pressures.<sup>11</sup>

**Migration and remittances.** In Vietnam, about 6.6 million people migrated from rural areas between 2004 and 2009, either permanently or temporarily, for seasonal work. A study found that remittances — money sent home to rural areas — helped raise farm productivity. The researchers speculated that migrant households have greater social capital or assets compared to non-migrant households.<sup>12</sup>

**Innovation in supply chains.** In addition to attempts to establish a supply chain for 'safe vegetables', the government of Vietnam has pioneered programmes to distinguish products based on origin (to certify food safety) and *terroir* (to certify natural or human factors that confer a special quality).<sup>13</sup> In northern Vietnam, producers have standardised breeding processes for H'mong beef, branding the product based on both territory and specific production methods. This sets themselves apart from beef imported legally or illegally from other countries.<sup>14</sup>

## Research and policy implications

Discussions about the impact of rural-urban transformation exposed gaps in knowledge, which have implications for both the Sustainable Development Goals and the New Urban Agenda. Participants identified the need for more evidence in several areas to ensure that food-related policies promote inclusive, green and food-secure growth for development.

**Beyond big cities.** Urbanisation has the potential to change the livelihoods of women and men — and associated consumption patterns — even at relatively low levels of population aggregation. With this in mind, research can uncover how food systems are being transformed across different levels of urbanisation. This could provide insights into how these changes drive rural transformation and affect gender relations, as well as the role of small towns, markets for wholesale goods and staples, and small-scale distribution and informal markets.

**Alternative route to inclusive food-secure growth.** Many governments privilege modern food distribution to promote food safety, tax revenue and competitiveness. These policies, however, may lack supporting evidence. They may exclude small-scale producers, low-income producers and the dense network of traders and SMEs in between. Participants pointed to more inclusive approaches that work with and for smaller-scale actors, including women and young people. Potential research themes include alternatives to vertical integration, alternatives to the removal of informal street vending in urban settings, and the long-term impact of remittances, particularly on women.

**Food safety.** Food safety, especially for vegetables, meat and milk, emerged as a key driver of food system restructuring. Research priorities include a better understanding of the relative performance of smaller-scale, semi-formal chains versus formal, integrated chains; consumers' willingness to pay for 'safe' food and the gap between intent and action; and alternative approaches to improving the safety and security of non-integrated supply chains.

**Cross-border trade.** Participants pointed out that research and advocacy have not kept pace with the regional overlapping of food economies. Further research is needed to understand the role of corporations in the region in driving cross-border investment in production and processing, as well as into the impacts of regional trade agreements. The workshop called for greater cross-learning in the region to track these changes, identify innovative practices and influence regional integration.

### Bill Vorley

Bill Vorley is team leader for IIED's work on small-scale and informal enterprise, with particular expertise in agribusiness, agrifood systems, informal markets, smallholders and inclusive business. This briefing reflects the input of participants at the Hanoi workshop in October 2015.



## Knowledge Products

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## Notes

<sup>1</sup> UN-ESA World Urbanisation Prospects. <http://esa.un.org/unpd/wup/highlights/wup2014-highlights.pdf>. / <sup>2</sup> Holdaway, J (2015) Urbanisation, Rural Transformations and Food Security: The View from China. Working Paper. IIED, London. / <sup>3</sup> Sareen, S 'Food transitions: rural and urban food safety issues.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>4</sup> Nguyen, VT 'Introduction.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>5</sup> Sautier, D *et al.* 'Changes in meat consumption in Vietnam.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>6</sup> Reardon, T *et al.* (2014) Urbanization, Diet and Transformation of Food Chains in Asia. Global Center for Food Systems Innovation, Michigan State University, East Lansing, MI. / <sup>7</sup> Duteurtre, G 'Changes in the livestock sector and consequences on rural-urban relationships in Vietnam.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>8</sup> Schneider, M and Sharma, S (2014) China's pork miracle? Agribusiness and development in China's pork industry. Institute for Agriculture and Trade Policy, The Hague. / <sup>9</sup> Natawidjaja, R. 'Informal food vending in Indonesia.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>10</sup> Nguyen, XH 'Perspectives from a Vietnamese policymaker.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>11</sup> Thanh, HX (2015) Urbanisation and rural development in Vietnam's Mekong Delta: revisiting livelihood transformations in three fruit-growing settlements, 2006–2015. Working Paper. IIED, London. / <sup>12</sup> Nguyen, DC 'Migration, remittances and rural households in Vietnam.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>13</sup> Delphine, M-V 'Linking farmers to market with geographical indications and trademarks in Vietnam.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015. / <sup>14</sup> Hoang, HT 'Northern mountainous beef value chain, Vietnam.' Presentation at Food Consumption, Urbanisation and Rural Transformations, Hanoi, 1-2 October 2015.