



**SUSTAINABLE FOOD SECURITY
FOR ALL BY 2020**
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SUMMARY NOTE

Panel Discussion: Putting Globalization to Work for the Poor

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Introduction

Over the past decade, the number of people living in extreme poverty remained unchanged at 1.2 billion. While this is a smaller proportion of the world's population today than ten years ago, much more and faster progress needs to be made.

Addressing Poverty Where It Is Found

First, one has to attack poverty where it is found. About 70 percent of the world's poor live in rural areas, and most of them depend on agriculture for their livelihood. To make a large dent in global poverty, economic development has to reach rural areas and farming.

What Do the Poor in Rural Areas Need?

The first thing the poor in rural areas need is to increase agricultural productivity.¹ Higher yields for staple crops is necessary to open up the prospect of escaping poverty. But this leads to the first of several paradoxes to be encountered on the road to sustainable development. Rising agricultural productivity reduces the need for people in farming. It transfers people out of agriculture and creates a need for off-farm employment.² Unless off-farm job opportunities are created in rural areas and regional centers, these people will flee to large urban areas, depressing urban wages and straining urban resources.

In addition to rural jobs, the poor in rural areas need a way to make their agricultural productivity gains self-sustaining. While public-sector research and extension is needed to start productivity gains, private enterprise is needed to sustain them. So, a second paradox to manage involves the transition from public assistance to private enterprise in rural economies.

There actually is a reasonable degree of consensus around the broad outlines of coping with both paradoxes. For example, U.S. Treasury Secretary Paul O'Neill recently described how the international financial institutions might best address the challenge of raising living standards among the world's poorest:

"First and foremost, the development banks must focus their efforts on raising productivity growth in the developing world..."

¹ Remarks by Robert Thompson, Director of Rural Development for the World Bank, at a seminar in Beijing, China, November 2000.

² B. F. Johnston, "Agriculture and Structural Transformation in Developing Countries: A Survey of Research," *Journal of Economic Literature* 8 (June 1970): 396–404.

"...Economic history has taught us, for example, that investing in agriculture while laying the foundation for diversifying into competitive, privately owned manufacturing is a key to development...

"Because a market economy relies on institutional bedrocks like the rule of law, enforceable contracts and a stable government free of corruption, the development banks should actively promote sound governance and public-sector management in borrowing countries...

"...Grants are the right way to help an already heavily indebted country provide education, health, nutrition, water and sanitary needs for its poorest people and to help fight AIDS and other infectious diseases. Loans should be made only when there is an expectation that principal and interest will be paid back in full and on time...

"...As the financial conditions of individual countries improve, we should create a system of loan rates that moves toward the private-market interest rate...

"Finally, it is essential that the multilateral development banks become more rigorous about measuring their own results."³

While O'Neill was addressing how the international financial institutions can best help the poorest, his model of appropriate public and private sector roles has more general applicability and allegiance. Some of the additional elements of that consensus are relevant to this discussion.

National government policies in these poorest countries need to stimulate the development process. That begins with wringing out any policy bias against agriculture, including any overvalued exchange rates, export taxes or domestic industrial protection that raises farm input costs. Curbing corruption, ensuring civil order and providing broad access to risk capital are crucial. Investing in human capital (education, health and sanitation services, safety nets), physical infrastructure (roads, bridges, harbors) and facilitating institutions (property rights, predictable dispute resolution, information systems) are necessary supporting steps. So is appropriate investment in agricultural research and development.

Domestic market reforms also are needed. Public or parastatal monopolies need to give way to entrepreneurial competition. Job creation in rural communities and mid-sized cities needs emphasis to avoid overcrowded urban centers. More transparent capital markets and more progressive labor standards are required to stimulate investment and to protect against worker abuses. Within households, better nutrition practices and more gender equity are important in lowering birth rates and raising healthier children.

The specifics of this development model have to be adjusted to the endowments and circumstances of different countries. But, the general pattern is well understood and widely endorsed: peasant economies built on traditional resources and practices need to be transformed by infusions of capital and ideas. Knowledge and mechanical power must replace ignorance and drudgery. And all of this capacity-building precedes any significant infusion of private globalization into the development process.

Where Private Globalization Fits In

Getting economic development that helps the poorest started is largely local work. Its first brushes with globalization probably are with the international development banks and with non-governmental

³ U.S. Treasury Secretary Paul H. O'Neill, "The Best Investment in Helping Poor Nations," *The New York Times* (July 17, 2001), op. ed.

organizations working on the ground to stimulate growth. Eventually, however, self-sustaining economic development must connect with the private global marketplace of trade, investment and knowledge transfer.

This interface is controversial and emotional in some quarters. To them, even the thought of private foreign investment, particularly in agriculture, seems anathema. Though this point of view needs rebutting, time doesn't permit dealing here with those arguments. I want to focus on the more conventional issues around how the global private sector can help reduce poverty among those where the processes of economic development have begun to take root.

There are several ways in which useful connections can be forged:

- (1) *Trade* — the industrialized countries offer important potential markets for the exports of poor people in poor countries. Unfortunately, these markets are often in highly protected sectors, like agriculture or textiles; the United Nations estimates these lost markets are worth \$700 billion.⁴ A new and more successful WTO trade round could unlock much of this potential.
- (2) *Trade facilitation* — poor countries often face other kinds of barriers in exporting to developing country markets, especially agricultural and food products. Food safety standards may be unfamiliar; packaging and handling practices may be inadequate; quality levels may be substandard or uneven. In some cases, these barriers have protectionist motives behind them, but in many cases there are real issues involved in achieving consumer acceptance. Global food and agricultural companies can help developing countries incorporate needed safety, handling and quality practices, first to gain access to developed markets and, over time, to develop a reputation for high standards.
- (3) *Food security* — poor countries and poor people are particularly vulnerable to interruptions in their food supplies, since they are living at the margin of subsistence even in normal times. Trade-based food security can be a critical supplement to local production, for a number of reasons: (a) local harvests are much more variable than annual global output, where good crops in some areas offset poor crops elsewhere; (b) intercountry transportation costs are a fraction of annual storage costs; and (c) trade reduces food storage losses from pests, disease or rot.

An open food system, in other words, enhances food security at lower financial and social costs than today's mix of self-sufficiency and food-aid strategies. But it requires eliminating trade barriers in agricultural commodities and processed foods while providing financing vehicles that keep the poor from being squeezed out of the bidding in years when import needs surge.

- (4) *Environmental stewardship* — before global population growth levels off, the world will need to double its food production. To do that without converting more forests to farming, it will need to intensify production on existing hectares. To do this without exhausting or polluting surface and groundwater supplies or using excessive chemical pesticides will require wider access to new production technologies, including biotechnology.

Knowledge-intensive agricultural systems, broadly disseminated, are the only way the world can feed all its people better while reducing farming's global footprint. There are challenges to making this aspect of globalization work effectively for all, but there is no alternative that serves both the poor and the environment as well.

- (5) *Agricultural biotechnology* — genetically modified plants have become a central bone of contention in discussions about the effects of globalization on the poor. For wealthy consumers, the technology may be discretionary. For poorer consumers, for malnourished consumers, for farmers struggling to control pests, viruses and bacteria in more environmentally sustainable

⁴ "The Poor Who Are Always With us," *The Economist* (July 1, 2000): 46.

ways and for those who work on the frontiers of feeding all people better, agricultural biotechnology is an essential tool. The challenges in its use are: how to get the technology applied to the food or production problems of the poor; how to structure effective public-private partnerships that facilitate broad dissemination of the technology and its products; and how to develop private ag biotech industries in developing countries serving the resource, social and market challenges at the top of their priority lists. Today's often sterile confrontations need to give way to more productive dialogue and collaboration, if these challenges are to be met.

- (6) *Higher labor standards* — we all have been made aware of problems around sweatshops, child labor abuses and worker safety problems. Though these are troubling incidents, they also demonstrate that globalization is raising standards for people, products and plants. Most large companies already make it a practice to bring their "first world" standards with them, and they are quickly learning that where they don't, globalization's new communications capabilities will expose them.

The result should be a process of economic development with softer externalities than occurred under Western industrialization. That should translate more quickly into better products, better working conditions and better places to live for the poor.

- (7) *Economic justice* — economic development creates new consumers, people with the income to translate their needs and wants into effective demand. Aid recipients become consumers with purchasing power, calling forth markets that bring new choices and opportunities.

Some criticize the rise of markets — and particularly globally-driven markets — because of resulting income inequalities. Excessive inequality deserves to be disciplined, but the benefits of economic development also need to be acknowledged — an increase in life expectancy; higher living standards for the poor in absolute terms; and more resources for addressing social and environmental needs.

In weighing these various effects, more attention also needs to be given to the ways in which globalization can enhance community well-being. Economic development brings new means of connecting people, from electricity to roads to telecommunications. Companies train employees and give money, time and talent to address community needs, lifting individual and communal aspirations and offering means for fulfilling them. Private globalization need not be just about creating private wealth; it also can harness talents and resources to make whole communities better.

Conclusion

Globalization is not a panacea. In fact, it typically is a much smaller influence in eradicating poverty than are the actions of national governments, domestic markets and individual households. Nor is globalization always and automatically an improvement over traditional conditions. But it generates resources and transfers ideas that can be used for individual and community betterment.

Among other things, it makes agricultural productivity gains and rural economic diversification more achievable. And it makes food security, environmental stewardship and improved general living conditions more attainable. The better response is not to block globalization but to channel it through the right choices.

Note: The views expressed in this summary note are those of the author and are not necessarily endorsed by or representative of IFPRI or of the cosponsoring or supporting organizations.