

Poverty and the Globalization of the Food and Agriculture System

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Supporters of globalization argue that the process offers opportunities for poor people in developing countries to improve their livelihoods and grow out of poverty, whereas skeptics claim that globalization poses new risks to the well-being of poor people. The globalization of the food and agriculture system is at the center of this debate, because so many of the poor depend on agriculture as an income source and because the poor spend a large share of their resources on food. Assessments of the relationship between globalization and poverty vary dramatically, ranging from catastrophic to rosy, owing to the different scales at which assessments were made, different temporal perspectives, and different views on how well markets and other institutions (such as democracy, transparency, and participation) function for poor people.

In fact, however, as globalization occurs, poverty may or may not decline, and the two phenomena may or may not be linked. After all, many other changes have occurred simultaneous with globalization, such as improved governance in some countries, the start of new conflicts and wars and the end of old ones, the broadening of civil societies' reach and level of organization, improved infrastructure, and the transformation of domestic retail markets, and these changes may also affect poverty.

This chapter draws on J. von Braun and E. Díaz-Bonilla, *Globalization of agriculture and food: Causes, consequences, and policy implications* (New Delhi: Oxford University Press, 2008).

The Globalization of the Agrifood System

The globalization of the agrifood system can be broadly defined as the integration of the production and processing of agriculture and food items across national borders through markets, standardizations, regulations, and technologies. The globalization of the agrifood system increases when

- internationally traded foods increase as a proportion of production;
- traded agricultural inputs and transborder investments expand across countries;
- the science, knowledge, and information contents of the agrifood system cross borders;
- standardization and related regulatory institutions—corporate organizations such as multinational companies or public organizations such as the World Trade Organization—increasingly reach across borders;
- consumers' tastes and the firms and structures attending to them show growing similarities across countries and regions; and
- the health and environmental externalities of agrifood systems have transnational or global impacts.

Given the diversity of the processes involved, the globalization of the agrifood system is not easily quantifiable and cannot be aggregated into one index number. Moreover, these processes do not always occur concurrently or even lead in the same direction, making them even more difficult to quantify.

Poverty Trends during Globalization

In discussing the effects of globalization on poverty and food security, it is important to keep sight of the reality of poverty that lies behind the statistics: it is a problem that affects people of different ages, genders, and ethnic origins in different regions and in both city slums and rural areas. Furthermore, poverty is not a static phenomenon. Populations affected by poverty are in a state of flux in many countries. One portion of the population may free itself from poverty, while others are newly affected or threatened by it.

Nevertheless, a first step in understanding the effects of globalization on the poor is to look at the trends for poverty since the 1980s, the period during which globalization has accelerated. A mixed picture emerges when different sources of data and

concepts are used. Indeed, in the aggregate for all developing countries, the number of people living on less than two dollars a day actually increased by about 164 million people from 1981 to 2002. The number of people living on less than a dollar a day, however, fell by approximately 467 million people during the same period.¹ These aggregate numbers also mask large regional and cross-country disparities; although the number of poor people in East Asia and the Pacific and in South Asia has declined substantially, it has increased in Sub-Saharan Africa and in Europe and Central Asia. Furthermore, China has seen large decreases in the number of poor.

Effects of the Globalization of the Agrifood System on the Poor

In general, poverty is influenced by globalization but is seldom caused mainly by it. The extent and distribution of world poverty stem from a lack of access to resources and opportunities. Also, dependencies, corruption, and other governance failures, along with poor people's lack of rights in the face of traditional local power structures, as well as the lack of education and health care, are all key factors explaining poverty and hunger. But an analysis of the links between globalization and poverty must take into account the dynamics and volatility of globalization processes. Given that the majority of the poor live in rural areas and depend on labor or earn their living as small farmers, the effects of globalization on employment and small-farm competitiveness are central to determining the impact of globalization on poverty.

One risk of globalization for poor people lies in the increased volatility of market and nonmarket institutions and the potentially reduced public and private security for individuals and groups affected by crises and unforeseen events. Although these risks are real, they must be compared with the risks in nonmarket situations, such as the substantial risks poor people face in traditional subsistence agriculture, where bad weather or crop pests pose livelihood-threatening risks, or the risks of closed economies with heavy state involvement in markets, which may result in forgone growth opportunities.

Although the phrase *globalization of the agrifood system* describes a general tendency toward integrated markets, it includes various processes that may or may not go in the same direction. Therefore, to evaluate the effects of the globalization of the agrifood system on the poor, it is necessary to trace the poverty effects of different components of the globalization process. The four major components considered here are (1) market integration through trade liberalization, (2) increased investment through capital flows (foreign direct investment), (3) increased access to information and innovation across borders, and (4) the adoption of global social policies. The latter is also part of globalism but is often overlooked in the globalization debates.

Agricultural Trade Liberalization

Cross-country estimates of the effects of agricultural trade liberalization on the poor are highly varied. One reason for the divergent results is that the studies use different experiments and data, along with models that have different behavioral parameters and theoretical features. Additionally, because these types of studies use national estimates, they mask the heterogeneity of the impact of trade liberalization on different types of households. In general, the evidence shows that trade liberalization in agriculture will allow many developing countries to exploit their comparative advantages and to actively participate in world trade. And, despite some of the divergent findings, the overall result is that the majority of poor households will gain from trade reform, although some will lose. But the evidence also shows that the effect of trade openness on poor households' income is not large and that results vary across countries and household types. This finding suggests that in addition to taking a global view, researchers should adopt a case-specific approach when considering trade liberalization.

Globalization of Investment and Capital Flows

A central feature of globalization is the expansion of transborder capital investments in the form of foreign direct investment (FDI). FDI could affect poverty levels through four channels: employment, human capital formation, knowledge spillovers, and increased government revenue. If FDI were to flow into labor-intensive sectors, it would generate employment for unskilled workers, which would increase their incomes and thus reduce poverty. If FDI were capital intensive or knowledge intensive, however, it might favor skilled labor over unskilled labor, which might translate into increased poverty or at least increased inequality. In the medium to long run, FDI inflows might induce growth in the economy through backward and forward linkages (that is, they might "crowd in" new investments) and through knowledge spillovers. Furthermore, increased FDI could translate into government revenue as the foreign firms pay corporate taxes. In the long run, if FDI were to crowd in new investments, it would lead to an increase in the tax base. The additional revenue could then be used to make pro-poor public investments (in, for instance, infrastructure and provision of public services), which would translate into poverty reduction.

The location and sectoral patterns of FDI also play a role in determining pro-poor outcomes. Does FDI go mainly to special zones or urban areas, for example? Is it directed toward food and agriculture and related processing industries? Although FDI in agriculture and food has been rather limited, FDI concentration in urban areas fosters rural–urban migration, which in turn can indirectly affect the rural poor through, for instance, an increase in the receipt of remittances. Moreover, if

FDI leads to rapid expansion of food retail industries and if market innovations reach small and poor farmers, it can have a significant wage rate effect for the rural poor, but this outcome is context specific.

The little empirical evidence that exists on the direct effects of FDI on poverty levels shows that rates of remuneration for well-trained workers are rising, but the effects of allocating FDI to low-wage locations remain inconclusive for salaries and employment levels. The consequences of globalization for poor people's employment opportunities depend on labor productivity, policies (including education policies), and legal arrangements. Policymakers can and actually do facilitate pro-poor FDI by making institutional arrangements that foster private-sector growth and by improving human capital (such as health and education) to attract FDI that offers poor people more employment opportunities and improved wages.

Globalization of Information and Innovation

Another central aspect of globalization is the rapid expansion of global information flows, springing from increased access to information and communication technologies (ICTs). Information flows relevant to poor people's productivity and well-being are important determinants of their decisions and livelihood choices. It is important for developing countries to have information systems that deliver knowledge on adaptable innovations and research findings to their national agricultural research systems and that can contribute to the formation of markets and prices.

Access to ICTs in rural areas can be a source of significant welfare gains for poor people. For instance, a study comparing welfare gains from the use of telephone calls compared with alternative means of communication (such as mail) in Bangladesh and Peru found estimated gains on the order of US\$0.11 and US\$1.62, respectively.

Nevertheless, ICTs are not automatically pro-poor. For the potential poverty reduction benefits of ICTs to be realized, many prerequisites need to be put in place: deregulation, effective competition among service providers, free movement and adoption of technologies, targeted and competitive subsidies to reduce the access gap, and institutional arrangements to increase the use of ICTs in the provision of public goods. Therefore, on top of investing in telecommunications infrastructure, governments should establish appropriate regulations extending ICTs into rural areas.

Global Social Policies

One problem for hungry people is time. They cannot wait for long-term solutions, such as the economic progress that globalization offers. Overcoming poverty through economic growth alone would require decades, even with a high growth rate. To bridge the time issue and to cope with emergencies, social policy is called for.

The world does not have anything that could be called a global social policy, but elements of globalization of social policy are found in the promising but slow efforts to establish social and economic rights, such as the human right to food, at a global level. Another element is global emergency aid and its coordination mechanisms, as well as the more ad hoc but coordinated responses to disasters. Moreover, initiatives against exploitative child labor policies, such as a recent initiative on child labor in agriculture, are also relevant here. One study shows that by far the largest proportion of child labor in the poorest countries in Africa is found in economic areas that have been the least touched by globalization, such as agricultural subsistence production and domestic service. Global health policy initiatives, such as the program Disease Control Priorities in Developing Countries and the Global Fund to Fight AIDS, TB, and Malaria, are also significant innovations with the aim of fighting disease at a global scale.

More relevant than top-down global social policy is the influence of globalization in the spread of national social policy innovations across countries. The spread of Mexico's former Programa de Educación, Salud, y Alimentación (PROGRESA, now Oportunidades), with its focus on building human capital in poor households through conditional cash transfers, is an important example. Other countries have adapted this program for their own use.

In sum, considerable innovations in social policy have sprung up over the past two decades along with economic globalization and have made contributions to balance risks for the poor; in recent years these policies have started to reach into rural areas. Although they may have helped to reduce the relative proportions of poor and hungry, they did not substantially reduce the absolute numbers of these population groups in many countries.

Conclusions

Poverty and hunger have not decreased to an extent that could be considered satisfactory given the increased resources generated by the growth effects of globalization. Globalization offers opportunities for growth, but that growth alone is not a guarantee that poverty reduction will occur. And hunger—a central aspect of absolute poverty—has been reduced very little at best during the recent decades of globalization.

Still, globalization offers opportunities for poor people by giving them direct or indirect access to previously unavailable markets, capital, and the resulting employment, knowledge, and social protection and transfers. Yet national policy in response to the opportunities and risks of globalization has been of mixed effectiveness. Many countries have not shown a capacity to transform globalization opportunities into poverty reduction. To improve their chances of exploiting the opportunities of glo-

balization for poor people, developing countries should be working toward improving their terms of trade, overcoming domestic institutional constraints, improving their governance, and valuing the growth opportunities in rural areas by investing in infrastructure, rural education, and agricultural innovation.

There is no global consensus on how to take advantage of the increased economic opportunities that globalization offers in order to achieve the goal of reduced poverty and hunger. Such a consensus cannot be obtained from a top-down process. It must be pursued through broad and often conflict-laden discourses that increasingly include the political influence of poor and food-insecure people themselves.

Note

1. The numbers of people living on two dollars a day and a dollar a day are measured using poverty lines defined, respectively, at US\$2.15 and US\$1.08 at 1993 purchasing power parity.

For Further Reading

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