

## **4. THE HUMAN FACE OF GLOBALIZATION**

We have already discussed the most important aspect of the human face of globalization in section 2: the turnaround in the growth of the number living below the line of absolute poverty in the early 1980s and two decades of significant decrease in these numbers. The following section will show what is behind and related, the opportunities, the possibility for more mobility, the wider choice and value for money offered to people in globalizing markets.

### **4.1 Better opportunities and growing prosperity for more people**

Each year, about 6 million new firms are being created in the world (net of closures).

People are just grasping the opportunities from lower barriers to entry, both within the countries and across borders and start their own business. Many of these startups consist of just one self-employed person, but increasingly they formally invest and create jobs which means multiplying the opportunities for many more people. Far too many of the startups in the developing world are still in the informal sector, as Hernando de Soto clearly proves not mainly because they do not want to pay taxes, but because of red tape.<sup>42</sup>

Global statistics of investment illustrate the acceleration (see first table in section 1.2). But these total numbers give only an incomplete view on more complex, also more encouraging change. Indeed, in the 1960s and 1970s, large companies dominated the economy. Since then, the trend has started to reverse. Large firms rationalised by restructuring, outsourcing or downsizing and the number of business owners in OECD countries increased from 29 million to 45 million between 1972 and 1998.<sup>43</sup> Foreign direct

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<sup>42</sup> De Soto (2000)

<sup>43</sup> 'Entrepreneurship: Determinants and policy in a European US comparison', David B. Audretsch et al., 2002.

investment has increased, but so has local private investment that includes the startups.

Offering these opportunities through outsourcing and market liberalization is also key to sustained growth in prosperity: to keep the rates of creation of new companies up, to make sure the companies continue to grow and to create jobs. To be clear, small is only beautiful in the beginning, jobs are created, ideas and concepts are being spread out when an entrepreneur is not just starting to build what is sometimes called a "decent living organization", but willing to grow big. Globalization has created this opportunity also for start-ups in smaller economies and emerging markets.

But opportunities must extend down to the most disadvantaged. And they actually do, as illustrated in a story by the Swedish journalist Tomas Larsson: "It is in Rocinha – a well established "slum" – that Brazil's progress in recent years is most visible. The favelas are dynamic, hopping. It is a forest of small-dish aerials. In the small shops lining the main street you can buy refrigerators from Asia and mobile phones from Finland. You can pay for your new shoes with MasterCard or Visa. Dentists and lawyers have opened up practices on new premises. In 1999, the New York Times reported that Rocinha had more than 2,000 shops and companies, five banks and credit institutions, three daily newspapers and even a homepage on the Internet (<http://rocinha.com.br>)."<sup>44</sup>

In a near past, networking had a lot to do with personal, regional and national economic success. Wall Street and Silicon Valley are examples of networking: the larger the "cluster" of specialized people, the more productive each person becomes. Foreign investment can act as "network connectors": where conditions are right, small export processing zones grow and morph into increasingly prosperous manufacturing clusters (for example in Mauritius). The global dimension is changing this further. Take Africa as an example. Transport costs to and from countries on that

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<sup>44</sup> Larson (2001) p 16 f.

continent and even more between African destinations are extremely high by international standards, and as long as some of the countries there spend more on war than on infrastructure this will not change. But change is coming on the knowledge side, and it comes with technology. Sending a 40-page document from Chile to Kenya costs

- US\$ 50 by courier
- US\$ 10 by fax
- 10 cents by e-mail.

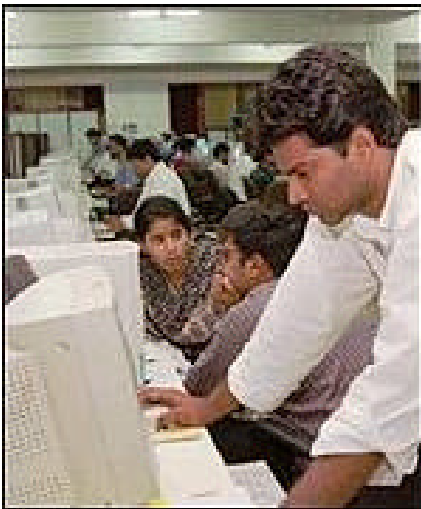
Global networks are enabling emerging economies to make better use of their skilled intelligent people; they are no longer all forced to emigrate if they want to apply their skills and develop their professional careers.



*Global networks: satellite dish in Bangalore, India (corbis).*

A good example are India and Pakistan: first, foreign companies started purchasing IT services from the two countries – initially

simple routine work, then increasingly sophisticated jobs. Now these local IT entrepreneurs have developed into a full-fledged, strong software exporting industry. In 2000, 900 of these firms in India were employing about 410,000 IT specialists, among them the second largest group of software engineers in the world, after the United States<sup>45</sup>. Indian software exports amounted to US\$ 50 billion, with a huge multiplier effect on the economy, since a very high share of these exports is – by its nature – value-added. Needless to say that the Indian software industry also suffered under the slump in the sector over the last couple of years; in some of the companies, growth rates came down from a 100% per year to 30% (Infosys Technologies Ltd.; it was the first Indian software company to be listed on a US stock exchange; the company is from Bangalore, today home to dozens of global and domestic technology companies and is popularly referred to as Asia's 'Silicon Valley'.



*Computer programmers at work  
in Bangalore, India  
(News.BBC.co.uk)*

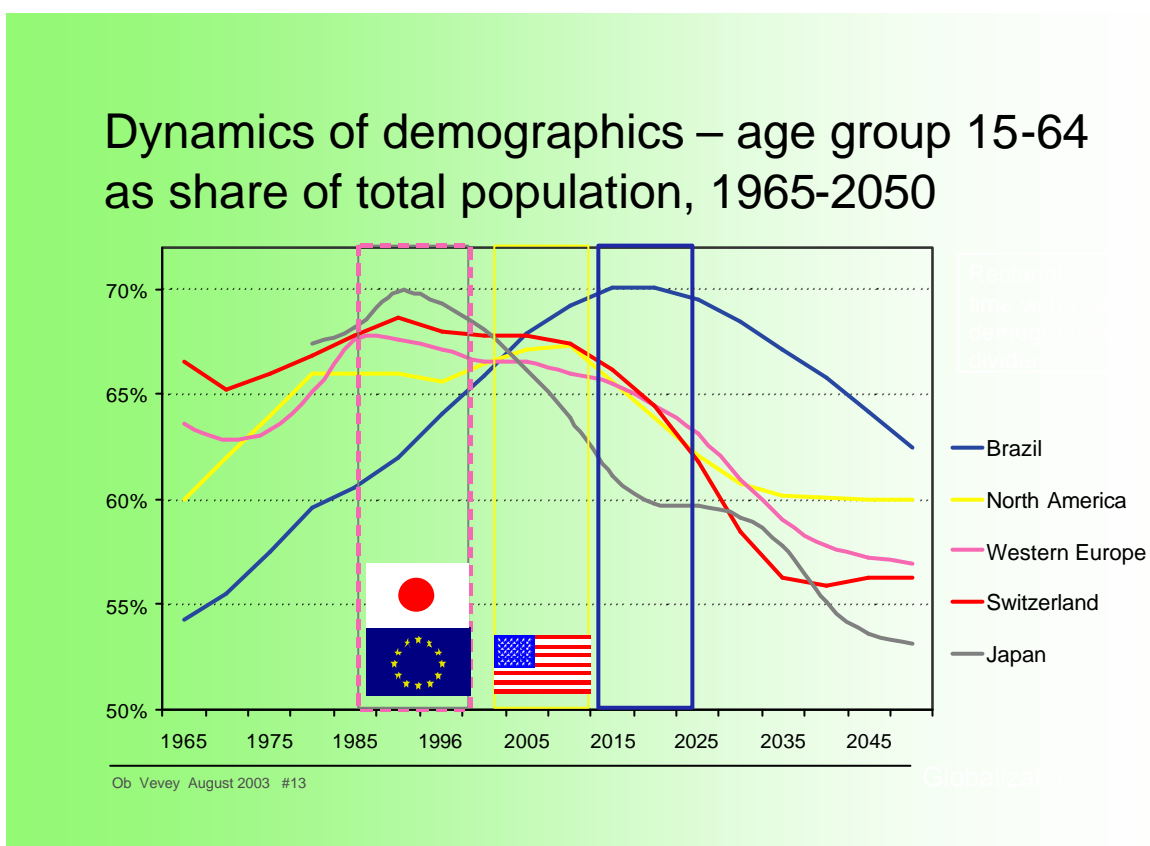
In more and more developing countries, people start using their skills, combining intelligence and access to knowledge, motivation and the will to succeed, entrepreneurship and more room for manoeuvre to move up on the income ladder to modest prosperity and, if possible beyond. We have shown this in section 2 of this report with impressive statistical data.

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<sup>45</sup> Arora/Athreya (2001)

## 4.2 Demographics and cross-border mobility of people

There are other factors driving the increase in wealth. One of them is demographics. Countries all over the world have gone through periods of massive demographic change. We see waves of very high numbers and percentages (chart below) of people at working age moving through the population of individual countries. Per capita growth accelerates when the share of people at active age is particularly high.



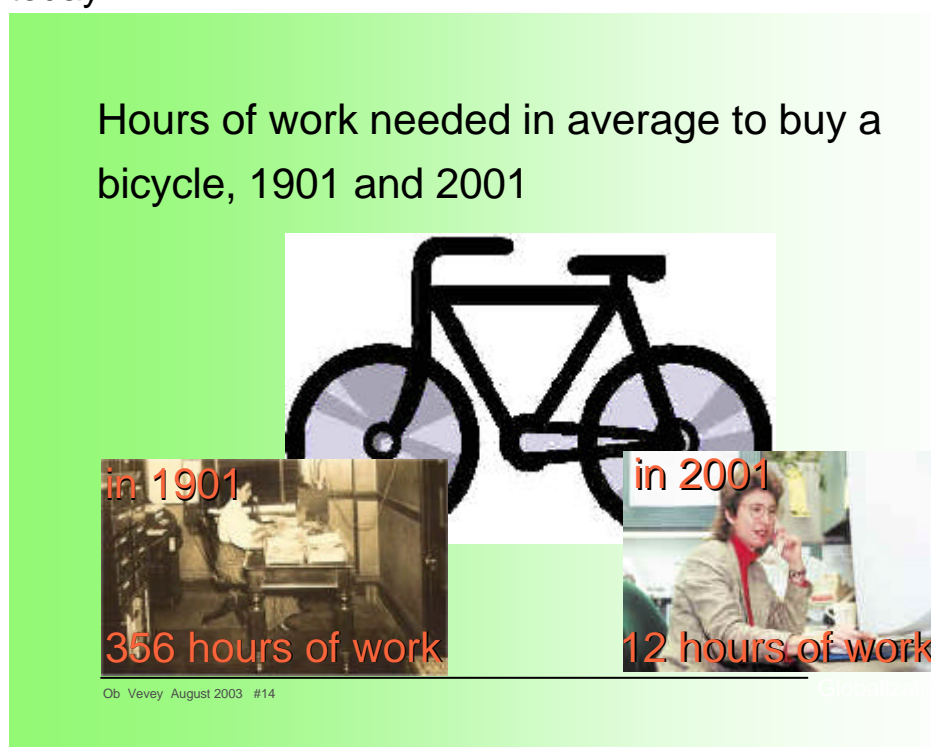
Brazil in the chart stands as just one example for many other emerging economies; it indicates that there is a good potential for a continuation of the positive trends in prosperity for the developing world for several decades ahead.

The wave tends to end with a steep decline of the percentage of the people at working age. It is not yet clear, how this will actually affect economies. But reasonable migration – both regional and global –

might help overcoming problems on both sides, i.e., initially with respect to too large numbers of new entrants in labor markets that cannot find a job in emerging economies, and too few people at working age driving the economy in ageing economies. Migration issues should therefore be viewed as an opportunity for all sides.

### 4.3 Greater availability of products; better value for money

People also have gained as consumers, since products are being offered at a lower price, mostly in much better quality and in a much wider choice. To illustrate the first point with some longer-term numbers: in 1901 the price of a bicycle, if someone could afford one, was the equivalent of 356 working hours. It is down to only 12 hours today.



Additional examples on a diversity of essential and less essential products can be seen in the table below.

<b><u>Time of work needed to buy a few other essential products:</u></b>				
	1901	2001		
A loaf of bread	14	5	min	
Coffee (150g)	34	14	min	
Cough medicine (200 ml)	2.9	0.6	hours	
One pair of men's trousers	5.7	2.3	hours	

Extrapolating these numbers to a broader view on the gains in value for money: It can be noted, for instance, that between 1950 and 2000, world population has increased by 140%. Yet, because of the enormous increase in agricultural productivity, freer trade of manufactured food and foreign direct investment of efficient food manufacturers and retailers, the real price of food has never been lower<sup>46</sup>.

Accruals in better value for money and hours worked are more or less evenly spread over the entire period 1901-2001. The improvement is coming from both higher wages and lower prices as they result from more specialized production and foreign trade, innovation, higher productivity, etc. It is estimated, for instance, that the liberalization in trade in goods of the Uruguay Round of the WTO alone produced gains in purchasing power of consumers all over the world in the order of up to US\$ 510 billion per year.<sup>47</sup> And this is not the end of the story yet: three scenarios for the Doha Round point out that a 50% reduction of tariffs, a sharp reduction of all agricultural subsidies and a reasonable reduction of other trade barriers would produce a real annual income gain of US\$ 83 billion for developing countries and of US\$ 67 billion for high income countries.<sup>48</sup> Full abolishment of all trade barriers, according to World Bank estimates, would lift 300 million people out of poverty.

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<sup>46</sup> Goklany, I. op. cit.

<sup>47</sup> World Bank

<sup>48</sup> Garrett/Goldin/Rodrik 2003

The potentially very favorable outcome of a successful Doha Round for the developing regions has several reasons, among them:

- the end of the perverse outcome of agricultural policies in the North (with a net positive impact for developing countries in the order of US\$ 10-20 billion; but a much higher impact for the rural areas where 70% of world poverty is concentrated; urban consumers, on the other hand would have to pay more)
- the fact that the highest import tariffs are for product flows between developing countries, so lowering these tariffs would have a strong positive impact for both consumers and exporters in the South.

The highest overall gains from opening markets are for consumers. These gains due to competition are manifold: More imports and private investment offer a much richer choice for consumers of all income groups. Free and richer choice of the consumer is not at all limited to Bordeaux vintages and expensive cars in the first place, but simple products and some modest pleasure for many different people. Let us briefly do a look back in order to explain what we mean.

Some 150 years ago, a grocery store in a working class quarter in Europe would carry about 200-300 products. Today, everybody can choose among a diversity of up to 40'000 products (in a grocery hypermarket): simple products, sophisticated prepared meals, niche products for ethnic minorities (more and more appreciated by many people from other ethnicities, too), products from organic farming. The richness of the choice on the shelves has been globalized. But food products, those that are probably closer to consumers' minds have remained to a very large extent local. All these products are on the shelves for the consumer to choose freely.

Over the last 10 years, globalization has accelerated this process towards more choice. In a number of countries – particularly in

Central and Eastern Europe – this took the form of a step change. The two pictures below, taken in supermarkets in the Czech Republic before and after the fall of the Berlin wall, illustrate this in an impressive manner.



**"Compote":**  
food store in  
Prague, 1966



**Choice:** a food  
store in  
Prague, after the  
changeover from  
communist rule.

This second picture is not at all from a luxury store; it shows how the choice in average stores has increased.

Actually, markets are the biggest democracy of the world; in their center stands self-determination of consumers based on an ever-

wider choice, marketing people can advise, suggest, convince, but they cannot force anything. (P. Brabeck-Letmathe)<sup>49</sup>

#### **4.4 The Green Revolution: first global campaign to reduce hunger**

As for people in developing countries, it is merely half a century since two of the world's worst recorded food disasters. In 1943, during the Bengal Famine, an estimated four million people died of hunger. Even more recently, but forgotten as well, in 1958-61, China suffered a terrible famine in which 30 million people died. In both situations, there would have been some food surpluses available in other areas, but markets were fragmented and nobody was able to bring sufficient food to those in need.

It was these events that triggered the first truly global campaign, the Green Revolution, and it is interesting to remember that civil society activists of the time tried to stop or slow down the introduction of high-yield farming, which they said would produce poor, contaminated land and food, and would lead to other unforeseen problems in the Third World.

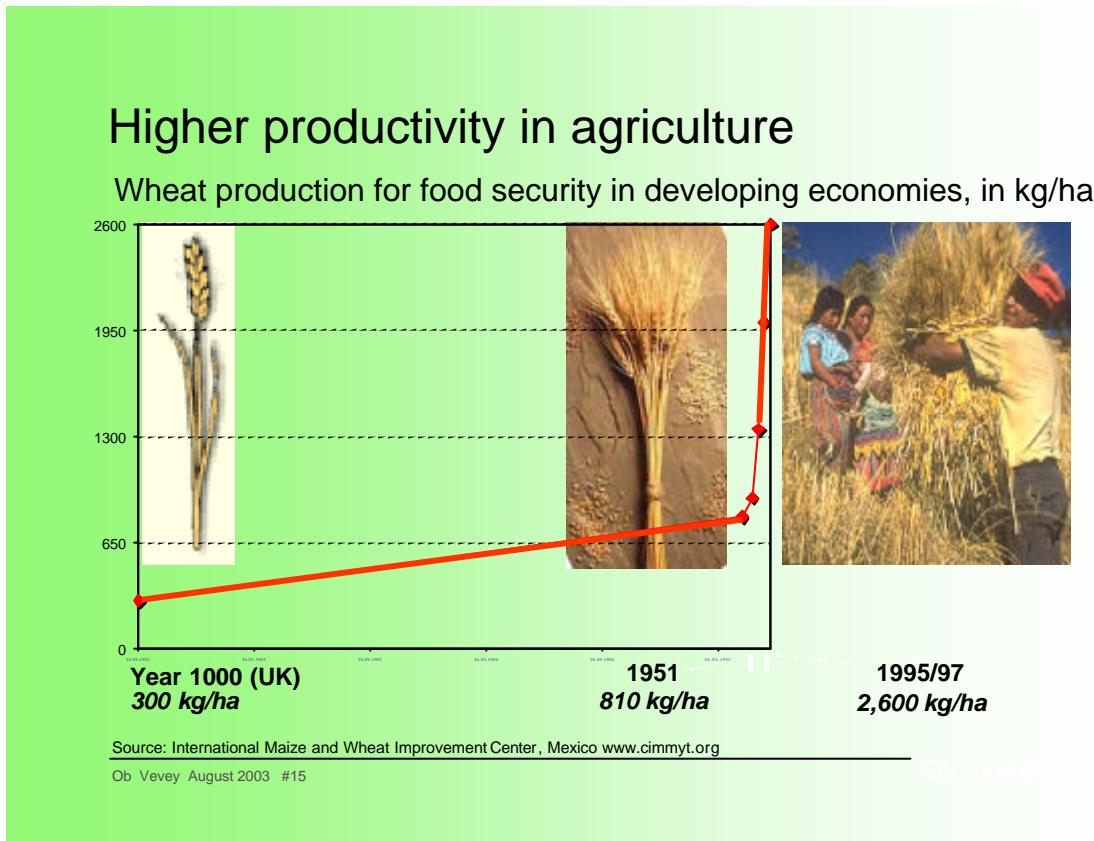
There are still too many people going to bed hungry and even dying from hunger. There are still massive famines, such as those in Ethiopia, but to a large extent they are the result of wars and social and/or political unrest. However, famines with a death toll of millions and millions of people, such as those in Bengal and China about 50 years ago, are now history.

This step forward was possible due to the first truly global campaign, the Green Revolution. The Green Revolution was not without cost – environment, overuse of water, etc. – but in hindsight a cost much lower than the misery of millions of people dying from starvation. It increased productivity – and as a result food production worldwide –

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<sup>49</sup> Brabeck (2003)

at a scale unprecedented in history and has become the main building block to feed a population growing at the highest pace in human history better. Actually, per capita food consumption (in terms of daily caloric intake) increased between 30 and 40% in developing countries, the real price of basic foodstuffs like rice fell by half.



It took about one thousand years to increase productivity from 300 kg to slightly more than 800 kg per hectare. With the green revolution, the productivity increases became almost exponential. Green Revolution technologies achieved an acceleration in productivity growth and production that nobody would have believed possible and unprecedented in history. The campaign was global in several respects: it brought together countries from all continents, and it combined the strengths of many different actors in society – international organizations, focused researchers as well as sustained market- and profit-driven corporate initiative. These very different strengths were not combined in some vague concept of partnership, but each actor had clear responsibilities. It was also

global in the sense of looking into all areas of knowledge and technology without prejudice. Progress was achieved through: double-cropping existing farmland (supported by irrigation, fertilizers) and using seeds with improved genetics.

As a result, widespread and repeated starvation in the poorest regions of the world came to an end. Between 1961 and 1999 the average daily food supplies per person increased 24% globally, from 2,257 calories to 2,808 calories. The increase was even faster in developing countries where it went from 1,932 to 2,684 calories<sup>50</sup>. Improvement is still continuing: according to figures from FAO between 1969-71 and 1997-99, the number of people suffering from chronic undernourishment in developing countries declined from 920 million to 790 million, or from 35% to 17% of their population, respectively, despite a 76% rise in their population<sup>51</sup>. However, there are still famines today, but they mainly occur because of political problems (civil war, cross-border conflicts such as for instance in Ethiopia, government failure such as the one in Zimbabwe) not agricultural ones. But whatever the reasons, the problem needs to be addressed continuously.

Further efforts for improving and increasing agricultural production are still urgent: the amount of arable land is steadily decreasing, while at the same time the world's population (expected to grow to 7 billion before 2015)<sup>52</sup> and consequently the world food needs are rapidly increasing. There is an urgent need for another global effort that combines all available knowledge to face the problems ahead. Available food must double in calories by 2025 and triple until 2050<sup>53</sup>. As with the Green Revolution, there will be no "silver bullet" to solve all problems in one strike, but at the same time no solution if we narrow down views according to prejudice in developed

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<sup>50</sup> Goklany, I., op.cit.

<sup>51</sup> Ibid.

<sup>52</sup> Source: World Development Indicators 2001

<sup>53</sup> FAO

countries. It is for this reason that GMOs must be seriously included in the global approach to overcome future food shortages.