



The Intersection of Global Health and Business

[Just Business \(Interview Series\)](#)

[Derek Yach](#), [Yanzhong Huang](#), [Julia Taylor Kennedy](#)

JULIA KENNEDY: Welcome to Just Business. I'm Julia Taylor Kennedy.

Many see global health as the domain of nonprofits and international organizations. But today on the show, we'll look at two ways that global health is a growing concern for big businesses and bottom lines.

Beverage and snack food behemoth PepsiCo seems an unlikely candidate to fight obesity and related diseases, since some of its best-selling products have high sugar and salt content. When PepsiCo's controversial CEO [Indra Nooyi](#) took charge in 2008, she put a greater emphasis on global health, arguing PepsiCo should improve the healthfulness of its current products and develop new healthy snacks and beverages. This approach has angered some shareholders, and PepsiCo's share price has stayed fairly flat under Nooyi. But so far the company has stuck to its strategy, arguing the investment in health will pay off.

Nooyi brought on several executives to implement her vision, including former World Health Organization (WHO) executive director Derek Yach. Holding a master's in public health from Johns Hopkins and a medical degree from the University of Cape Town in his native South Africa, Yach spent decades in public health combating AIDS and big tobacco. Now he sees the power that big business can play in affecting consumer health.

Yach started our conversation by telling me why he entered public health in South Africa.

DEREK YACH: That was the height of [apartheid](#). It was a period when it seemed that it was only going to be through law or through public health that you could have the biggest societal impact. My Latin wasn't good enough for me to go into law, so I was left with public health.

But more seriously, there was a cadre of people in that period who really saw apartheid's impact as being seen most explicitly in the social justice that came out in the numbers, black death rates being stunningly worse than white death rates, diseases and preventable diseases being very strongly related to race and social class, and that being an area where you could make a difference.

It was an extraordinary opportunity to have done epidemiological work to define what were priorities and what needed to be done to improve public health, and then have the political opportunity to see them being implemented by [Mandela](#), when he came in, as some of his lead projects. Particularly, those related to maternal and child health and nutrition were given the funding and support right from the word go.

JULIA KENNEDY: When I think of public health in South Africa, I often think of AIDS. Did you work on AIDS issues?

DEREK YACH: I did establish our first national AIDS research program in the Medical Research Council, at a time when there was hostility by the then-apartheid government, really for two reasons. First, the AIDS epidemic had appeared first in South Africa among gay pilots, and the gay community was not one that the apartheid government was particularly supportive of. Only later did it start appearing among the black population, and, again, under apartheid, that was not the highest priority of government.

JULIA KENNEDY: How has South Africa's approach towards AIDS treatment and prevention improved in the years since?

DEREK YACH: It has improved dramatically. Now there is a very good national program in place of treatment, increasingly prevention, and there are many millions of South Africans on treatment. There is still a large number that need to be screened and prevented. But for the first time, there is hope, and we are starting to see the infection rate decline, and we have seen the number of people on treatment is reaching the amount that should be on treatment.

JULIA KENNEDY: How did you make the leap from communicable disease to noncommunicable diseases?

DEREK YACH: I always felt that I was a generalist. I was not particularly interested in the dividing line between infectious and noninfectious diseases. I saw big numbers of measles cases that could be prevented. I saw a huge amount of tobacco that could be prevented.

So while I was doing work in South Africa on measles or under-nutrition, I was simultaneously leading a lot of work on tobacco, because that was a dramatically growing epidemic.

It was when I moved to WHO that I was given an explicit task by [Brundtland](#), first in addressing tobacco and building a tobacco treaty, and then tackling the other aspects of chronic diseases, particularly those related to diet and physical activity and alcohol.

At the time—this was a decade or so on—the evidence had just got stronger. Colleagues had started looking at the burden of ill health on a worldwide basis and shown that we had been seriously neglecting cardiovascular disease, diabetes, and cancers.

JULIA KENNEDY: How did you decide to then come into the private sector?

DEREK YACH: I really didn't decide. I got a phone call from Indra Nooyi the month before she was about to become the CEO. I had met her once before. She invited me for a lunch, to really just get some ideas about what she wanted to do. She laid out a vision of transforming the company, recognizing that the call was going to be important, that long term, there would be a critical need to address the need to have healthier, more nutritious products.

At the end of this vision, she said she thought it would be a good idea if I joined her. So I wasn't really given much choice. If you've met her, you'll know that there was not a discussion.

I had never thought of joining the private sector. But the vision and her personal passion were so obviously strong that it seemed a no-brainer. There was actually a deep desire that I could sense in the company to change and to think about how you change over the long term.

Having worked at WHO on the guidelines of what the private sector should do, it was a great opportunity to move from saying, "Thou shalt lower salt, lower fat, do all these good things," to actually seeing how difficult is it to do it in reality and how do you actually really engage with a company with a scale that we have, which is 1.5 billion or so consumers hit almost every day with a product. Well, it's very rare to have that opportunity to reach such a wide audience through your product lines.

JULIA KENNEDY: So how has it been going, five years in?

DEREK YACH: I'd give myself maybe a 65-70 percent success rate. Five years in, progress has been made on restricting marketing to kids in many areas, lowering sodium across the portfolio, not just of PepsiCo but many of our companies we work with, whether it's Unilever or Kraft of Nestle, starting to make progress on changing what we sell in schools, particularly sodas, working with Coke, and a range of other measures that we were at the top of the priority list of WHO.

The next phase, I think, we're seeing that a lot of these changes are really not going to be embedded unless you are willing to take on some of the tougher constraints of making progress.

For me, there was a great learning opportunity to realize that there are constraints on either side of the food chain.

On the one side, which we knew about but probably didn't have the greatest insight, was that you can come up with the greatest products in the world, but if consumers don't want to eat it, you're not going to sell it. Now, that's so obvious inside a company like PepsiCo, but it's not so obvious in the public health world, where the issues of taste are virtually never discussed.

The benefits of the lower-salt product, if it is going to compromise taste, will simply not be taken up by consumers. There is only a small category who are willing to eat cardboard. That's not a really big market for us. So that piece on understanding, what are consumer insights, has been a learning experience certainly for me and for my outside colleagues, but also been a challenge for us because we can only go as fast as consumer demand will allow us to go.

But on the other side of the supply chain, everything that we produce grows, which meant taking a deeper look into our agricultural program and recognizing that there were huge opportunities to think about how agricultural policy, how agricultural practices, could help us over the long run.

JULIA KENNEDY: Let's go back to injecting healthier initiatives and making products healthier. I'm curious if you are approaching it more from the diversification of products, bringing more healthy products in, or then also saying, "Well, let's reduce the sugar levels in our soda and the salt levels in our Fritos." How are you approaching that strategically?

DEREK YACH: Our CEO has put it very well when she said, "It's not a question of either/or; it's a question of and." The reality for the foreseeable future is that many of the core brands remain the driving source of profitability and growth for the business.

Thinking back to South Africa, the analogy I always remind people of is it's about trying to rewire the plane while you keep it in flight. So the engine of growth remains some core brands. The stronger that engine is, the faster we can transform and bring in a wider range of healthier products and foods and so on.

I suspect over time that you may see the growth—hopefully, we will see the more rapid growth of the healthier side while the core will either stay the same or grow probably at slower rates, simply because it is the core and it is already predominantly out there.

In some parts of the world, the demand for healthy foods and healthy beverages is probably going faster than people suspect, particularly the aspirant middle class in India, in parts of Africa, in parts of Latin America. By all accounts, the demand is jumping over the past, to actually expect that you will have low-salt, low-sugar, nutrient quality products available.

And we have seen that. If you look at the last two decades, for example, the price of corn and anything related to corn has come down dramatically, making it very much cheaper.

JULIA KENNEDY: And it was already low, right?

DEREK YACH: It was already low. That's a combination of subsidies and research support, billions and billions of dollars. The price of fruit and vegetables and whole grains, by contrast, has risen dramatically. The gap between the two has made it more natural for food manufacturing companies to be taking the cheap stuff and see what they can do with it, as opposed to fruit and vegetables.

We have joined forces across the industry, as well with many in the public sector, in saying that the issue of subsidies and the distorting effect of subsidies needs to be tackled right at the core.

JULIA KENNEDY: Let's talk a little bit about the agricultural sourcing work that you are doing. I read an article about a chickpea program in Ethiopia. Tell me about what sourcing can do for development also, beyond just the healthfulness or sustainability issues.

DEREK YACH: I think there has been a great deal of interest in the last few years around the fact that, at the macro level, the world is facing a challenge in how it is going to feed 9 billion people by 2050. If you look around the world, there are not too many places where there is arable land left that is not in use.

Africa has 60 percent of the arable land that is not in use. The yields of any crop are stunningly low. Just to give you a sense of some numbers, they produce across Africa, South Africa excluded, about one ton per hectare of cereals. In contrast, in most Asian countries that will be in the range of three-to-five tons, and in the Midwest it would be eight-to-ten tons. Now, you can see we are talking about huge orders of magnitude. If you can double the yields in Africa, or triple them, it would be good not just for Africa's food security but for the world's food security.

With that in mind, we've started working with colleagues in Ethiopia, really at the request of the government during a time of the worsening food crisis, where they were concerned that the World Food Program was importing [Plumpy'nut](#), a peanut-based product—and peanuts are not grown very much in Ethiopia—when they have plenty of chickpeas. They wanted to know why couldn't you reformulate a product which uses our local crops and brings value to the farmers.

In discussions with them, we formed a partnership to do a few things.

- Through the foundation, to support the World Food Program to develop a chickpea-based nutritional supplement that would be of value throughout the Horn of Africa: progress on that is moving ahead; the pilot is well underway.
- Secondly, through our business, to work with the agriculturalists in Ethiopia to see how could you double the yields of chickpea and eventually go further, but using very simple technologies. The two big changes they had to make were simply planting chickpeas in rows and using the best seed available; this doubled the yield in the last season, showing from a proof-of-concept point of view that it can be done.

The next phase is to say: How can you expand that up across the 100,000-plus smallholder farmers in Ethiopia so

that they gain the benefit and the country becomes more food self-sufficient? That is something that our agronomists are working with the USAID (United States Agency for International Development) and the Ethiopian government to do over the next years.

In the long run, we are still exploring the potential of: Could some of that chickpea find its way into our growing hummus business? You know we have a brand in this country, Sabra. If the price was right and if the quality was right, that may be an option.

Already sesame gets sourced out of Ethiopia. So this is not a wildly strange idea to think about. When you think of the remoteness of Ethiopia, think about going down to get your tahini and hummus and Sabra, and already the sesame is probably coming from the northern corner of Ethiopia.

Now, the benefit of that approach is that it is a mixture of government (the U.S. government is involved with agriculturalists), it's our agronomists, it's the local ministry of agriculture, and it's a UN agency. We think the benefit is that they are going to create a sustainable source of local crops for a long-term nutritional need of their 10-12 million people who at any one point are at risk of going rapidly into serious hunger. But more importantly, it is part of a broader vision of agricultural development that is starting to take shape.

I think this nexus between profitability and development is, hopefully, going to become increasingly the norm going forward. The trick is that the stream of benefits often occur in different time spans. So the benefits of many of the environmental and development things are often quicker than those compared to the healthier foods. And you are always going to have those expecting short-term gains. So the trick on all of these things is to be able to have the patience to wait it out for a few years until the benefits for development and the benefits to the shareholder coincide.

JULIA KENNEDY: Obviously, there is pressure from shareholders. That especially puts Indra Nooyi in a very pressure-filled environment, to say, "We are looking at creating shared value, performance with purpose, long-term benefits." Do you think that the company will be able to preserve this space for you to be doing this kind of work and making this kind of progress long enough to see the returns?

DEREK YACH: I think so. I think the reason is because we are becoming a lot more sophisticated internally and understanding that different aspects of performance with purpose bring different gains to the company. So it really is this notion of doing good in society while you are profitable and the need to have an intimate link between the two.

If you think of the fact that to earn our license to operate we need to always meet the norms and standards of countries. So lowering salt, sugar, and fat is really increasingly seen as part of the need to have our license to operate. The more we actually lower salt, sugar, and fat in some of our products, the more we can sell them to children, again, because then they meet nutritional criteria in the school programs. So these are not just cost items. These actually translate into profits.

In the environmental area, the whole focus on eco-efficiency tends to bring the rewards to the bottom line far quicker, because if you use less water and less energy you are going to pay for less stuff, and that immediately is impactful.

Sustainable agriculture is kind of in between these things. On the one hand, it's about securing your supply chain permanently in a much more flexible way. I would argue if we don't go down the route of the work we are doing on sustainable agriculture, we will be very vulnerable to—whether it's a pest outbreak on potatoes, which is not beyond the possibility. We are in the middle of a [wheat rust](#) epidemic spreading worldwide. [Potato blight](#) was a reality many years ago. There always are diseases on oranges and chickpeas and whatever they are. Staying ahead of that curve requires a commitment to sustainable agriculture that will continue to pay off over time.

And then, I think, there is the rational risk mitigation, that if you can reduce risk and your long-term risk—marketing is seen as a risk from a regulatory point of view. The pressures have been rising for many years. The more we control our own ability to address some of those things, the better our long-term growth will be.

I think the combination of all of these things—the shareholders need to know that there is going to be a long-term revenue stream coming out of this. The proof of it is that many of the healthier parts of the portfolio have already seen that happen at higher rates than on the core. There will always be short-term pressures. We are still coming out of a [recession](#), unparalleled recession. I hope we don't end up seeing another one like this in our lifetime. Despite that, we are still clearly staying the course.

JULIA KENNEDY: Derek Yach, it has been wonderful to sit down with you. Thank you so much for spending the time and appearing on Just Business.

DEREK YACH: Thank you. It has been a great pleasure.

JULIA KENNEDY: Derek Yach is senior vice president of global health and agriculture policy at PepsiCo.

As PepsiCo grapples with its approach to public health, governments are also examining the link between public health and growth. Chinese-American scholar Yanzhong Huang says China can be doing a better job of ensuring its citizens are healthy and productive, and he says that would make the Chinese market growth more sustainable.

A senior fellow at the Council on Foreign Relations and a professor at Seton Hall University, Huang has written widely on the link between physical and economic health in China.

YANZHONG HUANG: You look at the trajectory of Chinese reform since the late 1970s, tremendous progress has been made on the economic front—there is double-digit economic growth, China is now the second-largest economy in the world.

On the health front, we have seen basically the stagnation of people's health status. Basically, between the early 1980s and 2010, we have seen only 10 years of improvement in people's average life expectancy compared to the 28 years of improvement during the [Mao](#) era; that is, between 1949 and 1980.

JULIA KENNEDY: So from 1980 to today they are only living 10 years longer than they would have in 1980, whereas before they would have lived 28 years longer than they would have?

YANZHONG HUANG: Right.

The government has claimed that over the past decades, China has lifted 400 to 500 million people out of poverty. You would expect a significant improvement in people's health status. But that is not the case. Obviously, the economic development failed to trickle down.

JULIA KENNEDY: You mentioned Chairman Mao's health policies in the 1950s and 1960s and you wrote about them in the article as a positive time for public health in China. What improvements were made during that period?

YANZHONG HUANG: The most important improvement is the institution of a three-tiered health care network in the countryside, from the country level to the township, or at that time the people's commune level, down all the way to the village or brigade level. So the farmers had access to those health care facilities in a much more affordable, sometimes even free, way. This is a very significant improvement considering that for several thousand years health care was an individual responsibility.

JULIA KENNEDY: I think a lot of people have heard about the "[barefoot doctors](#)" that were introduced during this period. How did that network work?

YANZHONG HUANG: Basically, to solve the problem of lack of doctors and health care workers, Chairman Mao popularized this idea of selecting those with, for example, primary school education to be trained in six months to be a health care worker who would still be considered a farmer; half of the time a farmer, but half of the time providing health care to the farmers.

JULIA KENNEDY: After Mao's death in the 1980s, things shifted. What changed?

YANZHONG HUANG: The change is basically less direct in a way. Because of the collapse of the communes and the collectivized system, this health care system that was piggybacked on that collectivized system also collapsed.

For example, "barefoot doctors" could no longer be paid by the stipends they usually draw from the collective farms. So the system then started to collapse from the bottom level, then to the township level, then to the county level.

In the meantime, with the improved standard of living of those farmers, they now could bypass this referral chain and they went to see the doctors directly at the county level. That also leads to the decline of the rural health care system in the post-Mao era.

JULIA KENNEDY: So what happened was those who could afford to go to the county-level doctors got health care and those who couldn't, didn't?

YANZHONG HUANG: Exactly. Because of the private practice that was popularized in the countryside, which tends to charge higher, many could not afford to see these doctors. So there was the case, I think in the late 1990s, where basically more than 70 percent of the rural people did not have any access to health care.

JULIA KENNEDY: What type of medicine would substitute?

YANZHONG HUANG: Some was quack medicine, some the traditional Chinese medicine, but quite a significant percentage of the people chose not to go to see the doctors because they could not pay. Even by 2003, there was this admission that a significant percentage of the farmers ended up dying at home because they couldn't pay.

JULIA KENNEDY: What has happened more recently? The Chinese government has made an effort to improve health care, right?

YANZHONG HUANG: Yes, they have actually invested tremendously in the health sector. Between 2009 and 2012, they have invested (U.S.) 173 billion dollars in the health sector. That was used to strengthen the grassroots community-level health institutions, to provide free basic health care services, and also of course to expand the insurance coverage for most of the Chinese people today. Actually, by the end of last year, almost 99 percent of the people are covered by some kind of health insurance.

JULIA KENNEDY: But gaps remain. So what kinds of gaps do you still see in the system?

YANZHONG HUANG: The gaps are still at the extremely low level of benefit. For example, when you need stomach cancer surgery, let's say, you would still need to pay out of your pocket 12,000 yuan. That is about an annual salary, income, of a farmer. So the burden would still be considered high despite the government efforts to improve the health sector.

We would expect that the problem is not going to be relieved in the short run for a couple of reasons.

First of all, the health care costs will continue to increase because the government, even today, still only finances 10 percent of the revenues of the public hospitals. So 90 percent of the revenue the hospitals have to make by themselves. This is a strong incentive for them to provide expensive health care.

Secondly, a majority of the public health funding actually is not from the central government but from the local government. They don't have strong incentives to provide health care because that is not used as the yardstick to measure their performance for career promotion. So even though the government has aimed at reducing people's out-of-pocket share to 30 percent of the total health expenditure, the local financing will continue to be a problem.

JULIA KENNEDY: China seems to have put such a priority on economic growth and to create a market economy. What is good health's effect on that economic growth?

YANZHONG HUANG: Healthy people also contribute to labor productivity. We found this is a problem, for example, in South Africa where, because of the HIV/AIDS problem there, they have to hire two. But that is an additional cost for labor. Good health is a good investment. That is going to bring down the labor cost.

Also, for the foreign investors, when they want to invest in China, they want to make sure that there is a good health care system. Actually, years ago—I'm sure it is still the case—when foreigners came to China, one of their major concerns was the health care problem. Even today there are only a very few foreign hospitals in China that are considered reliable.

JULIA KENNEDY: Then linked to that manufacturing question are all kinds of scandals we have seen over the years, most recently with food that is raised in China and consumed domestically and some that is exported, and then also with counterfeit drugs. In an effort to keep costs low as part of this economic push, Chinese manufacturers are using odd substitute cheap goods.

YANZHONG HUANG: Right.

JULIA KENNEDY: That brings up a whole host of problems. But is that damaging to the Chinese economy in the long run?

YANZHONG HUANG: Absolutely, yes. That is actually the concern. If you look at the food industry, there are all kinds of problems, other scandals—steamed buns dyed with chemicals, pesticide-contaminated vegetables, the baby infant formula that is contaminated with melamine, and more recently I read a report just a couple of days ago that said yogurt—not all yogurt; it is what the Chinese call old yogurt, that is the yogurt in solid state—that was made not of the gelatin for food use but actually made of gelatin for industrial use that was extracted from the razor whales.

JULIA KENNEDY: Wow. You hear this stuff and you think, "Oh, how demonically clever!" And then you think, "Oh, how scary!"

YANZHONG HUANG: It is very scary, actually. I found this very interesting because years ago, only those people who were coming from abroad, like from the United States, would worry about the food safety problem in China. But just weeks ago, one of my friends visiting from China—he actually emigrated from China—he was very

candid. He talked about actually foremost concern was food safety there. So you find these middle-class and rich people are now very concerned.

And of course for the government, they are also very concerned, but they have their own way to solve the problem. They have this so-called "special supply system." They have their own plants, factories, to make the foods just for them.

JULIA KENNEDY: Wow! So you can see that's sort of a dark side of capitalism, right?

YANZHONG HUANG: Exactly.

JULIA KENNEDY: There's this push to keep costs low and keep profit margins high. So how do you think this problem can be best solved? Is that government regulation and enforcement? Does it come from the international community? Does it come from a coalition of business owners? Where should it come from?

YANZHONG HUANG: Certainly, this is actually a problem with multiple causes. Certainly, this is a market failure problem because China has failed to develop a true market economy.

The food industry is a very good example. In the early 1980s, the government decided to encourage the growth of the food industries. They actually built up an association to promote the food industry. This is as part of the Chinese so-called developmental stage, targeting certain industries by using tax breaks, policies, to nurture that industry.

But that same process also hurt or undermined the regulatory capabilities of the Chinese government. When the local government, for example, is concerned about nurturing the industrial sector, making more money, increasing the GDP, the regulation becomes sort of a hurdle for that process. So they paid little attention to the regulation.

This "made in China" brand, actually its reputation has been undermined because of all these problems. That is why [Wen Jiabao](#), the Chinese premier, years ago when he was in New York, he was saying, "We are going to do our best to reestablish our reputation and make sure products are up to the standards of the United States and other countries."

But more importantly, if you go a step further, this is the issue of systematic loss of moral values and ethics. This reveals a deep ethical gap in the Chinese economy. In the words of the Chinese premier, the factories, companies, entrepreneurs fail to have this moral blood.

JULIA KENNEDY: Certainly, we in the United States can't sit and point and fingers because our own food manufacturing has its own issues with ethics and morality and regulation and all of that.

But you look at all kinds of health governance issues around the globe. China has such a unique system of government. But do you see other countries that are doing this better, that can provide lessons and examples for China to learn from?

YANZHONG HUANG: Yes. Many of the Chinese scholars and government officials think this is just part of the problem during the transition, that when you are moving the economy from a planned economy to a market economy, you are going to have that kind of problem. To some extent this is true, because when you look at our U.S. history in the 19th century-early 20th century, we had similar problems of scruples, business people—

JULIA KENNEDY: The factories in Chicago.

YANZHONG HUANG: Chicago, yes. You have heard all that, [The Jungle](#).

JULIA KENNEDY: Right, exactly.

YANZHONG HUANG: [Upton Sinclair](#) describes it so vividly.

We had similar problems. Actually, the reports of these muckraking journalists, authors, they actually led to action of the government to build the Food and Drug Administration in the United States.

China seems to be in a similar process. But there is something that is different I would say, because, unlike the United States, in China when they are building this robust regulatory framework they are like building a ship at sea, because they didn't have this solid dock to build these institutions. By "solid dock" I mean the supporting institutions, like democracy, rule of law, civil society, which were there when the United States was building their regulatory framework for food and drugs. But that is still missing.

The problem is that building the supporting institutions, you cannot do it overnight. It takes time, actually a long

time, to complete. So I see this as the challenge China now faces.

JULIA KENNEDY: Dr. Huang, thank you so much for joining me on Just Business. You do a great job of laying out the basics of all these issues. I appreciate it.

YANZHONG HUANG: My pleasure. Thank you.

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