

Sample Examination Questions:

1. Which of the following is NOT an element or characteristic of a transnational corporation?
  - a) They are difficult for states to regulate.
  - b) TNC investments have decreased recently, especially since the financial crisis began in 2007.
  - c) The TNC regime is one of the oldest in the world going back to the seventeenth century.\*
  - d) Structuralism is the IPE perspective that sees TNCs as agents of capitalist imperialism.
2. Which of the following is NOT one of the three forces UNCTAD identified as driving transnational market growth in the 1990s?
  - a) policy liberalization
  - b) technological change
  - c) increasing competition
  - d) consumer demand\*
3. By the 1980s, the most popular host nation for FDI by TNCs was
  - a) Mexico.
  - b) Korea.
  - c) Japan.
  - d) the United States.\*
4. Which of the following is the LEAST likely explanation for the pattern of most foreign direct investment?
  - a) to overcome trade barriers
  - b) to take advantage of cheap foreign labor\*
  - c) to internalize firm-specific advantages, such as proprietary processes
  - d) to take advantage of location-specific advantages, such as ability to understand host-country tastes
5. Which of the following is NOT a reason for some TNCs investing abroad?
  - a) to avoid currency problems
  - b) to search for new technology and production techniques\*
  - c) to protect a competitive advantage
  - d) to take advantage of specific production environments
6. Which of the following is NOT an element of the product cycle theory?
  - a) a TNC identifies demand for product in another country
  - b) as the product is sold abroad TNC subsidiaries are established to handle some production and sales of the product
  - c) after satiating demand for the product the TNC goes back home to create another product\*
  - d) when the technology becomes standardized the TNC goes abroad again to a place where production costs are cheaper and makes another foreign investment
7. Which of the following best characterizes appropriability theory?
  - a) Some firms invest abroad in order to protect an intangible asset like a brand name.\*
  - b) Some firms invest abroad because it is easier to share technology with other firms who produce the same product.
  - c) Some firms resist investing abroad for fear of losing control over domestic markets.
  - d) None of the above.
8. Which of the following best characterizes the “branch factory syndrome”?
  - a) investment abroad to protect an intangible asset like a brand name
  - b) investment abroad to gain efficiencies from sharing technology with other firms
  - c) resistance to investing abroad for fear of losing control over critical corporate assets\*
  - d) none of the above

9. Given the expanding importance of TNCs in the increasingly globalized markets of the world, the role of the state seems to
- have changed, where the state's role now is to bargain with TNCs.\*
  - have diminished; TNCs now call all the shots.
  - have become stronger because mercantilist policies, that require a strong state, are more important now than ever before.
  - have stayed the same; the state's role has always been to encourage its businesses.
10. Who is most responsible for the idea that many TNCs engage in FDI because they wish to exploit a monopoly position while protecting a key asset, such as a trademark, resulting in imperialism in everything but name?
- Lenin
  - Hymer\*
  - Gilpin
  - Vernon
11. Strange and Stopford argue that TNCs not only compete and bargain with states, but that often, they join with each other to form
- TNCs.
  - partnerships.
  - a diplomacy triangle.
  - alliances.\*
12. The reason that best accounts for the failure of the OECD backed MAI is?
- competitive antitrust legislation in different countries or regions.
  - different legislative regulatory regimes in the U.S. and EU.
  - holding the talks under the auspices of the OECD instead of the WTO.
  - states desired to continue to discriminate in favor of domestic firms and to bid lavishly for foreign factories.\*
13. The growing importance of BRIC economies may include all of the following effects EXCEPT:
- add support to the appropriability theory as the one which best describes the behavior of TNCs.\*
  - increase competition and challenge the dominance of Western TNCs.
  - increase TNC use of global commodity chains.
  - externalization of human capital intensive steps such as product design.
14. Sovereign Wealth Funds are of great concern to some politicians because:
- they control huge sums of money that can be invested in different countries.\*
  - they are not beholden to any host or home country.
  - they might act to further the national interest of their home country.
  - they, like other TNCs, can outsource a lot of their work.
15. Outsourcing and offsets by TNCs can result in:
- increased employee insecurity among workers in the home countries of the TNCs.
  - increased sales of the TNCs' products in the countries where it outsources or has offset agreements.
  - increased competition from firms that have received outsourced work.
  - all of the above.\*

## CHAPTER 18

### FOOD AND HUNGER: MARKET FAILURE AND INJUSTICE

#### Overview:

Since World War II there have been occasions of massive hunger, primarily in developing nations, but for the most part the world food problem was viewed as a problem of excess supply and weak demand. However, in the summer of 2008, the world found itself in a new food crisis, with hungry and poorer people facing low levels of commodity reserves and high food prices. This crisis triggered riots and dramatic increases in the number of hungry if not starving people in the world. It also generated intense debate over the factors that created the crisis as well as possible solutions to combat global hunger.

The chapter outlines many of the political, economic, and social structural elements of the global food production and distribution system. It employs the three dominant IPE perspectives of economic liberalism, mercantilism, and structuralism to explain the primary factors that experts and policy officials suggest contributed to the new latest world food crisis. The chapter ends with a short overview of popular proposals to solve the crisis and a discussion of some of the implications they have for management of global food and hunger problems.

Finally, the chapter makes three arguments. First, that the current world food crisis is *not* primarily due to lower commodity supplies accompanied by an increase in income and population. Rather, this argument only begs the question of why prices increased so much over roughly a three-year period before the crisis of 2008 was acknowledged to exist and why commodities ended up in short supply so suddenly.

Second, instead, the chapter concludes that the seeds of the global food and hunger problem remain rooted in poverty and a mismanaged food distribution system. Hunger and starvation are *permanent structural* features of the global political economy related to political, economic, and social structures of power that reign over the market. Poor people *consistently* lack access to adequate food supplies. The crisis itself was caused by a combination of six factors that came together in a relatively short period of time that resulted in high food prices.

Finally, management of the food production and distribution system suffers from the conflicting *interests and values* of different food actors that include states, international organizations, multinational corporations, and sub-national groups. These actors make up policy networks connected to complicated economic development, energy and environmental issues, and security problems that make it nearly impossible to create global food policy.

#### Learning Objectives:

- To outline what was the dominant explanation of “world hunger” up until the 1970s.
- To outline and discuss the political and economic causes of the world food crisis of 1973–74.
- To outline and discuss specific ways that state policies and market actions often cause hunger.
- To outline and discuss how mercantilists, economic liberals, and structuralists view food and hunger problems in the global political economy.

- To explain the six factors that experts and officials cite as the main causes of the 2008 world food crisis, namely: (1) a weak (undervalued) U.S. dollar that helped draw down commodity reserve levels; (2) environmental events that placed a natural limit on commodity production, particularly in developing nations, which then sparked renewed fears of famine and starvation throughout the world; (3) heavy investment (speculation) on agriculture commodities (4) new U.S. and EU requirements for biofuel production that reduced the amount of commodities available for food consumption; (5) the ineffectiveness of international food development strategies and policies; and (6) the persistence of war, disease, and government mismanagement.

#### Chapter Outline:

#### AN IPE OF FOOD AND HUNGER

- a) For mercantilists, food and hunger issues are tied up with national wealth and power. Nations that produce surplus food supplies benefit from their ability to influence other nations.
- b) Orthodox economic liberals view the world food and hunger problem as a failure of market forces to balance supply and demand, believing that if the market decided policy outcomes, there would be enough food to feed the world.
- c) Heterodox interventionist liberals promote fair trade over free trade, partially to account for the impact of trade policy on food security.
- d) Structuralists tend to see food and hunger as a global class issue, charging that “cheap food” policies often benefit the rich to the detriment of the working class and poor.

#### A BRIEF HISTORY OF GLOBAL FOOD AND HUNGER ISSUES

- a) In the twentieth century, increased commodity surpluses combined with weak demand led to low food prices and farm income, causing governments to adopt production subsidies and implement a variety of protectionist measures, including trade.
- b) Cheap food policies in the United States led to increased consumption, while increased production allowed the use of food as a tool, helping to achieve a variety of foreign policy objectives.
- c) In the second half of the century, hunger came to be viewed as the result of inadequate food production coupled with overpopulation.
- d) International organizations funded development projects in the 1960s such as Green Revolution research to help LDCs overcome their hunger problems. Yet even with these measures, LDCs could not overcome hunger.
- e) The “Lifeboat Ethics,” thesis by biology Professor Garrett Hardin, suggested that the industrialized nations should discontinue food aid to the developing nations due to the finite amount of resources available in the world. Critics argued that the world had not reached such limited resources, and that those that had more than enough should share with those who had little or nothing.

#### A World Food Crisis and a Paradigm Shift

- a) In 1972, the Food and Agricultural Organization (FAO) declared a world food crisis because of anticipated grain supply shortages.
- b) In 1973 the United States devalued its dollar, allowing industrialized nations to import more grain, but forcing the countries most reliant on food imports to go without, as they were unable to afford the higher prices created by the shortage.
- c) Concurrently, OPEC dramatically raised the price of oil, causing many non-oil-exporting states to limit food exports in order to pay their energy bills.
- d) In the mid-1970s, “Food Firsters” put forth the argument that hunger resulted more from income distribution than reduced production and overpopulation. LDCs lacked the ability to insure all individuals received the minimum requirement of nutrients or the financial resources to produce these nutrients.

## HUNGER AMIDST PLENTY

- a) After the food crisis of the 1970s ended, food security did not improve for many individuals in LDCs. In cases such as Somalia and Ethiopia, civil war and disease both contributed to the continued spread of hunger.
- b) In the 1980s and 90s efforts by both governmental and private organizations did little to halt the spread of hunger and starvation, particularly in Africa.
- c) During the rest of the 1990s and into the early 2000s, civil war contributed to the deaths of millions by starvation. Africa, ravaged by wars in Rwanda, Sudan, Angola, Ethiopia, Sierra Leone, and Liberia, remains the most affected continent. Many other African states regularly face hunger due to drought and must overcome high incidences of HIV infection, which have worsened their hunger problems. In 1996, the FAO sponsored a world food conference in Rome, where 187 states pledged to halve the number of hungry people in the world within 20 years, to approximately 400 million. Little progress toward these objectives has been made, and little is expected given that the global financial crisis that started in 2008 has led to cutbacks in promised food aid.

## An IPE of the Global Food Crisis of 2008

- a) Food experts offer at least six reasons that contributed to a “perfect storm” of a global food crisis that appeared in the summer of 2008.

## An Undervalued U.S. Dollar

- a) A weak dollar encouraged other nations to import more U.S. grain, creating a drop in global supply levels and rise in food prices.
- b) While a hardship for the world’s poor, U.S. farmers welcomed the rise in prices and anticipated increased sales to China and India.

## Natural Limits, Population Growth, and the Return of Malthusian Nightmares

- a) Droughts, water shortages, and desertification brought about decreasing yields in grains.
- b) Production shortfalls combined with population increase in many LDCs such as China and India renewed fears of a Malthusian nightmare of overpopulation and starvation.
- c) Most structuralists disagree that the world does not have enough food to feed everyone. Structuralist Food Firsters like Lappe, Collins, and Rosset argue that while there could be 74 million more mouths to feed every year, more people are buying more meat and more food is going into biofuels. Hunger is primarily a byproduct of inequality and exploitation rather than lack of production or overpopulation.
- d) Some HILs and neomercantilists argue that as China and India have rapidly developed their industrial sectors, they have *deliberately* slowed grain production, becoming more dependent on commodity imports in order to meet a dramatic increase in the demand for soybeans, feed grains, meat and non-traditional commodities and food.

## The Role of Speculation

- a) For three years before the food crisis, investment in agricultural commodities increased dramatically. Investors purchasing stock in agricultural commodities often bid up its value, creating higher food prices.
- b) Economic liberals argue that speculation can be good as it gives farmers incentives to increase production, but HILs and structuralists disagree, stating that the increased prices hurt the hungry.

## Biofuels

- a) States hoped biofuels would consume surplus agricultural commodities, allow farmer to maintain price levels for their products, and weaken the pressure for governments to provide subsidies and trade protection.
- b) Biofuel production was substantially promoted in the years leading to the crisis, leading to declining commodity reserves and higher food prices.

#### The Mixed Views of Economic Liberals

1. Many economic liberals believe biofuels warrant tax incentives, preferential government purchases, and state-sponsored research grants.
2. By the winter of 2008, many had admitted that biofuels were not as efficient as hoped and might have contributed to rising food costs and hunger.

#### Mercantilists Cross Paths with Economic Liberals

1. As ethanol production increased, wheat production decreased, leading to higher wheat prices, more hunger, and greater instability.
2. To promote greater stability, mercantilists favor establishing governance and sustainability standards with other nations. However, conflicting domestic interests make this difficult to establish.

#### Structuralists

1. Increasing use of biofuels helps promote corn production, drive food prices, decrease food quality, and leave nations vulnerable to drought and other weather-related phenomena.
2. Biofuel production also requires industrial agriculture, reducing the number of small farmers and weakening self-sufficiency.

#### LDC Over-Reliance on the Industrial Agricultural and Development Models

- a) Each of the three IPE perspectives offers different reasons why LDCs have relied on industrial and agricultural development models
- b) Mercantilists emphasize security issues, structuralists the failure of these conventional models, while economic liberals have largely overlooked income distribution and poverty as causes of underdevelopment and hunger.

#### OELs: Production Efficiency and Open Markets

- a) The food crisis of 2008 was a result of LDCs not pursuing western agricultural development strategies far enough.
- b) LDCs should specialize in producing commodities specific to their geography, exporting these to earn foreign currency and using the earnings to import commodities other nations produce more efficiently.
- c) Due to difficult growing conditions, the only way to produce enough food or earn enough currency is to embrace industrial agriculture and genetically modified organisms (GMOs). Now consumers can benefit from a second “gene revolution” that spread transgenic organisms from North America into many developing countries. Many support GMOs, citing increased efficiency and nutritional value along with a decrease in environmental impact.

#### HILs Shift the Food and Market Agenda

- a) HILs are more critical of the agro-industrial development model, believing that it contributes to environmental destruction, is too dependent on fossil fuels, and widens the gap between the rich and the poor.
- b) Free trade policies should be reformed and fair trade policies adopted so that globalization can benefit a greater number of people.

#### Structuralists

1. Hunger is the result of the inequality of food resources rather than the lack of sufficient commodities. The industrialization of agriculture has helped drive small farmers out of business (“de-peasantisation”), made poorer states more dependent on imported commodities, and actually increased hunger.

#### Box: *Getting Back to Local Markets*

- a) Many structuralists and HILs have allied themselves behind the idea that returning control of food production to small farmers will not only enhance food security, but may improve the economies of developed and developing nations alike.

- b) Consumers are joining with producers within their communities to build the foundation of political reform.

#### Mercantilists

1. The agro-industrial model is both helpful and damaging to domestic and international objectives. Open markets can help stabilize nations, yet free trade policies can also undermine local production and lead to political instability.
2. After 9/11, realists were more willing to use food aid as a counter-terrorism tool, believing poverty and hunger undermined stability and strengthened terrorist groups.

#### War, Disease, Corruption, and Government Mismanagement

- a) These four factors are interrelated and usually appear together, particularly in the poorest nations.
- b) OELs believe corruption and poor management are significant barriers to economic development, and it is economic development that will relieve hunger. However, some mercantilists suggest that corruption can help developing countries serve their citizens.

#### CONCLUSION

- a) After World War II, the primary issue involving food and hunger was whether supply would keep pace with increasing demand. From the early 1980s until now, economic liberal solutions were offered to combat hunger.
- b) Currently a broader approach to food and hunger is evolving, considering food sustainability, energy and environmental issues, and social justice.

#### Key Terms:

- Food First
- Transnational Agri-business Corporations (TNACs)
- Cheap foods
- Agro-industrial agriculture production
- Tragedy of the commons
- Biofuels
- Genetically modified organisms (GMOs)
- World Food Program (WFP)
- De-peasantisation
- International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD)
- Local food markets
- Community Supported Agriculture (CSAs)

#### Teaching Tips:

- As is often the case, people have many misconceptions about the nature of the food and hunger problem. Stress to students that the main argument of this chapter is that food and hunger are not a problem of mainly population growth vs. food supplies, as Malthus thought, but often a result of state policies and market behavior. Different explanations generate different solutions, with millions of hungry people caught in the middle.
- Ask students to provide specific examples of ways that state policies and market actions contribute to hunger and keep food supplies from getting to the people who need them the most.
- Ask students to study a particular hunger situation related to drought, disease, war, or poverty. Ask them to identify the political, social, and economic factors that shape the situation. Have them use the three IPE perspectives to hone in on important points or ideas. Once they have done so, ask them to put forward one or two proposals to solve the problem. Coming up with a solution should *not* be an easy task.