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Comments from the Editor

Tamir Agmon, Editor

The main focus of this issue of AIB Insights is on the relations between the multinational enterprise (MNE) and the national state. This relation is one of the main features of International Business as a topic of research and teaching. It is also one of the main determinants of the practice of international business. It is a dynamic relationship that changes constantly. Moreover, it changes as a result of the decision taken by MNEs and by governments in countries that are either the sources or the targets of the business activities of MNEs. The simplistic, maybe the optimistic view that the world becomes a "global village" and that the national state is a relic of the past has proven wrong. It has been replaced by a dynamic and complex balance of power between the MNE and the national state.

Professor Kobrin discusses the process where MNEs are becoming active players in areas that were in the past the exclusive domain of the national state. This creates an apparent contradiction as "MNCs are global in scope while politics, law and social order are national or even local". This apparent contradiction is not surprising. The roots of the multinational enterprise as a unique business organization are in the dialectic tension between the national, the different, and the global, the common elements. As Kobrin states in his article: "MNCs are creatures of the international political system, of territorial jurisdiction and geographically defined sovereignty".

Professor Hirsch starts his article by an analysis of the World Investment Report of 2005. He focuses on the relationship between the size of the country and the level of internationalization of its firm. Using the index of internationality (TNI) Hirsch explores the relationship between the size of the country of origin and the level of internationalization as measured by the TNI.

Hirsch demonstrates in his article how important is the Distance Premium (DP) in the understanding of the spatial distribution of the MNEs. The DP is to some extent a measure of the degree of national and location idiosyncrasy. The ability to overcome the DP is what makes a MNE, and therefore it is the source for the competitive advantage of the MNE in a given market, or markets and in a given product, or products.

In a recent paper Deardorff (2004) discusses the phenomenon of a local comparative advantage. Local comparative advantage is the outcome of the existence of trade costs in a broad sense of the term and the ability of a certain firm in a given country to overcome or manage the trading costs and in this way to create a local comparative advantage, or a local competitive advantage for a MNE vis-à-vis a certain country and a given set of products and services.

The different political systems and the different systems of law and social order in the different national states are a substantial part of the DP, and a reason for a substantial part in the trade costs, particularly as the physical components of trade costs, (and DP), are eroded by technology. The involvement of the MNEs in the legal and regulatory aspects discussed by Kobrin and the resulted movement towards globalization of these aspects tend to reduce the Distance Premium and may in the long run reduces the current role of MNEs in the world investment process. Until such time, if it ever arrives, international business will flourish on the tension between the global MNE and the national politics, law and social order, and on the existence of DP even in a world where distances are getting shorter in time and money.

The last article in this issue pays tribute to one of the pioneers of International Business as a field of research and teaching, Prof.

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Robock. It is interesting to see from the interview that we as a profession still struggle with similar issues that Professor Robock and others from the "founding generation" of International Business have struggled with almost 50 years ago. Maybe one of the attractions of International Business as a field of study is the complexity and ambiguity in defining what is International Business. The complexity and the ambiguity may be difficult in an attempt to fit International Business into the MBA program, but it does allow for richer and more interesting research that contributes to a better understanding of the global business world.

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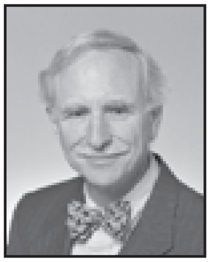

Multinational Corporations and Human Rights: Does "Private" Political Authority Imply Public Liability?

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"Corporations…are increasingly being asked to step into roles that were once the domain of governments or international bodies such as the United Nations. Defining what is properly expected of a company needs to be more clearly articulated and rigorously debated."

(Corporate Social Responsibility Group, 2001, p.5)

In this statement Jim Buckee (CEO of Talisman Energy) expresses both his recognition of the blurring of the line between the private and the public spheres and his frustration over the lack of guidelines for the public roles increasingly being pressed on multinational corporations (MNCs). Questions about multinational corporations' responsibilities for human rights violations are not new, they go back at least to 19th century colonial ventures in Africa and South Asia. In this essay, however, I will argue that globalization has changed the rules of the game: reconstituting what John Ruggie (2004) calls the "global public domain;" rendering the distinction between public and private actors ambiguous; and raising the possibility of liability under public international law for MNCs' complicity in human rights violations. I should note that this is a complex subject and my purpose here is merely to frame the debate and raise some pertinent questions.

A case currently before the Federal District Court in New York City is of interest. Talisman Energy, a large Canadian independent oil company, is being sued by two individual Sudanese plaintiffs who allege that the firm was complicit in violations of human rights in Sudan. While the case has not yet been decided, in June 2005 a judge reaffirmed the Court's jurisdiction arguing that "corporations may be held liable under international law."[1]

Neither the plaintiffs (Sudanese) nor the defendant (Canadian/Sudanese) are American citizens; the acts in question took place in Sudan, not the U.S. The case—and a number of others like it[2] —is being brought under the Alien Tort Claims Act of 1789. While the origins of this legislation are lost in time, it gives American courts *civil* jurisdiction over any tort committed by an alien in violation of the "Law of Nations." The Act lay dormant for almost two hundred years until it was resuscitated in the early 1980s when judges began to hear cases involving gross violations of human rights, regardless of where the offense took place.

That being said, it is still very pertinent to ask why a case involving a plaintiff and defendant who are both aliens and an act taking place outside of the U.S. is being brought in a court in New York. One answer is that it reflects a lack of other options. The host country government (Sudan) is certainly not going to prosecute a firm for complicity in violations it has committed and in this case, the home country (Canada) proved unable or unwilling to sanction Talisman. The NGOs who helped the plaintiffs bring the case to court had few alternatives: there are no interna-

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tional institutions which have the authority to monitor, judge or sanction human rights violations by private sector firms.

The Talisman case reflects globalization as a very incomplete, partial and asymmetric process. To a large extent, the world economy and economic actors such as MNCs are global in scope while politics, law and the social order are still national or even local. We are faced with a situation where global actors are regulated by a patchwork of national legislation. A global and increasingly non-territorial economy sits uneasily atop an outdated international political order rooted in geography, territorial sovereignty and mutually exclusive jurisdiction. I do not believe that this asymmetry is stable over time.

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Globalization entails deep-seated systemic change in the mode of organization of both economics and politics. While this is not the place for a complete review of this topic (see Kobrin 1997), two developments in particular are very relevant to the question at hand. First, the concept of absolute sovereignty has been compromised. This trend is not new: the Nuremberg trials at the end of World War II and the United Nations Universal Declaration of Human Rights which followed shortly thereafter both challenged the notion of unlimited sovereignty. At this point, there is certainly widespread—although not universal— agreement that governments do not have the right to mistreat their own populations and that borders and sovereignty are not a barrier to the protection of human rights by the "international community."

Even more important to my argument is the fragmentation of political authority that has occurred with globalization. The modern international system (the Westphalian political order) was state centric. That is, only states were actors in international politics and only states were subjects of public international law. While I certainly would not argue that states are either irrelevant or about to fade away, they are no longer the only actors in international politics. Non-governmental organizations such as Amnesty International, international institutions such as the World Trade Organization, regional authorities such as the European Union and multinational corporations all have the power to produce outcomes in international politics: they are actors with significant political power in the system.

My primary concern is the multinational corporation. There is a considerable literature that argues MNCs (and other entities) now exercise "private" political authority internationally.[3] They can effect outcomes and have taken on "public" functions which were previously the sole responsibility of national governments and international organizations. Let me provide some brief examples.

Corporations have developed private *self-governance regimes*. Examples are "eco-labeling" where a group of firms in an industry decide (often with the help of NGOs) what constitutes an appropriate environmental policy and then label their products to indicate compliance. Other examples include the development of textile industry codes to protect worker rights and the marked increase in private resolution of international disputes.

Multinationals, and corporations in general, have *assumed "public" functions* that were previously thought to be the responsibility of government. One of the best examples is the efforts of a number of multinational firms in the fight against HIV/AIDS in Africa. These efforts include provision of anti-retroviral drugs to workers and often their dependents and they appear to go beyond a question of even long term impact on the bottom line. One can also point to the "public" functions of bond rating agencies such as S&P and Moody's who rate the credit worthiness of sovereign states.

MNCs increasingly function as *autonomous actors in international politics* in venues such as the WTO or OECD. TRIPS provides one example (trade related international property rights). It was negotiated during the Uruguay Round at the GATT and was driven by a collation of American and European MNCs led by Pfizer. While the U.S. Government certainly was not opposed to TRIPS, it was the result of a private initiative in international politics. At OECD, MNCs, NGOs and states have negotiated agreements on consumption and value added taxes in the digital age. More recently, British Petroleum was directly involved in getting governments to the table to agree to treaties to facilitate the new Central Asian (Baku-Tbilisi-Ceyhan) pipeline.

In each of these instances it is reasonable to ask if the behavior is really new, does it represent a change in kind or degree? Two tests answer the question: 1) is the role performed autonomously or under the aegis of a sovereign state, and 2) do the firms as actors have the authority to influence outcomes directly or are they simply functioning as interest groups lobbying political institutions? In the cases noted above corporations are functioning as autonomous actors in international politics, they have "private political authority."

The emergence of private political authority on the part of MNCs is part of a larger trend, the blurring of the once sharp line between the public and the private spheres. This line has not existed for all time but was drawn with the rise of the modern state system and property rights and especially with the emergence of Liberal political thought in the 19th century. The Liberal ideal assumes that regulation and politics are public affairs of the state and that the market, the economy and economic actors were located in an independent, self-regulatory private sphere.

While the line was never crystal clear, it has blurred considerably with globalization. It is far from uncommon to see states acting as economic competitors—perhaps through state owned firms—and private actors with political authority. As noted above, authority in international politics has fragmented and multiple political actors are now the norm; the system is comprised of both "sovereignty bound" and "sovereignty free" actors (Rosenau 1997). As Ruggie (2004) has noted recently, what we are witnessing is not merely the privatization of state functions (e.g., garbage collection) but a reorganization of the public order with state-bound and autonomous actors coexisting in territorial and non-territorial spaces.

All of this leads to my fundamental question: does political authority imply public responsibility or liability? Should MNCs be held responsible for complicity in human rights violations under international law? Is there a need for a treaty or convention among states to specify the responsibilities of corporations in this area and establish mechanisms to monitor and sanction violations?

Many of those arguing for public liability of MNCs for human rights violations cite the size and economic power of these firms. However, I believe that to be a red herring: the real issue is that of political authority and its obverse, public responsibility and liability. In fact, human rights is an area where much of the activity has been "privatized." While governments and international organizations certainly play some role, much of the monitoring of violations, publicizing of behavior and even sanctioning violations is in the hands of non-state actors: NGOs such as Amnesty and Human Rights Watch. Examples of situations where non-state participants have been the primary actors include Conflict Diamonds and Shell's activities in Nigeria. In fact, there is increasing pressuure on firms to go beyond avoiding complicity in violations to take on a positive duty to actually secure the fulfillment of human rights.[4]

The Liberal ideal assumes that regulation and politics are public affairs of the state and that the market, the economy and economic actors were located in an independent, self-regulatory private sphere.

While the system may work at times, it is both inefficient and undemocratic. Cases are raised on an ad hoc basis and having policy made by northern NGOs and MNCs in third world countries is a long way from participatory democracy. Last, there is no agreement on standards: what constitutes, or should constitute, complicity in human rights violations.

However, even if one agrees in principal that MNCs should have public liability for human rights violations a lot of unanswered questions are left on the table. Who, for example, sets standards for acceptable behavior?

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Who will monitor violations and sanction offenders? Furthermore, the reality of incomplete globalization means that we are in the position of attempting to use the rules and institutions of the old international order to deal with global problems. There are a number of critical issues here. Each of them is complex and they can only be touched upon in this essay.

The problems posed by the fact that there is no such thing as an international firm have been discussed since the early days of the International Business Literature. Legally and politically, the MNC is an apparition. It is an entity whose strategy and operations are global, but whose basic structure is an agglomeration of national corporations whose existence in the sense of legal personality, whose rights and obligations flow from incorporation by national governments under national law. Thus, the rights and duties of MNCs are derivative; they flow from each unit's status versus its respective national government. MNCs are creatures of the international political system, of territorial jurisdiction and geographically defined sovereignty. MNCs do not have an "international" legal personality; they are objects rather than subjects of public international law.

Second, attempting to exert control the MNC through the home country government immediately raises problems of extraterritoriality. While that has not stopped the U.S. government in the past from using its network of international firms to push its policy (e.g., the Trading with the Enemy Act) it does raise barriers that can be a considerable impediment to action. Home country governments have proven reluctant to sanction the corporate headquarters for actions taken by a subsidiary, which is in fact a local corporation in subject to another jurisdiction.

Third, incorporation itself is a barrier to holding the corporation as a whole responsible for the actions of its subsidiaries. The relationship between units in the MNC generally takes the form of equity ownership, whole or partial. As each subsidiary is incorporated nationally, the doctrine of limited liability makes it difficult to hold the parent responsible for actions taken by the subsidiary. While the topic is considerably more complex, and there are efforts underway to piece the veil of the corporation, it is none the less a problem.

Last, the idea of a clear distinction between the private and public spheres has not lost traction. There are still many who believe that markets are self-regulating and that firms are not political actors; that the only duty of a MNC—or any corporation for that matter—is to obey the law in each of the countries where it operates.

Where does that leave us? I believe that there is a need to restore symmetry in the system, to restore isomorphism between economics and politics. Some form of international political action is needed to define corporate complicity in human rights violations, to monitor behavior and to judge and sanction violators. There are a number of possibilities which I can only sketch in outline form.

The least complex would be the development of a code of conduct that set standards for behavior in areas where human rights violations were likely, provides some means of monitoring and perhaps even imposes sanctions on violators, even if they were limited to expulsion or negative publicity. Given the nature of the evolving post-Westphalian political environment, any code of conduct or standard would require agreement among multiple actors including not only MNCs, but NGOs, international institutions and, perhaps, states.[5]

A second possibility would be further along the continuum towards a solution through public international law. A treaty or convention agreeing upon standards, monitoring mechanisms and sanctions could be agreed upon—with the active participation of both NGOs and MNCs—and then its provisions enforced through national law and national courts. Last, an international agreement could be implemented through an empowered international institution, a regulatory body for MNCs at least in the human rights arena.

My preference, in theory, is for the third which is the least plausible at this point. Voluntary agreements, including the U.N. Compact have their advantages, but they are very difficult to monitor and enforcement is problematic. While enforcing an international agreement through national courts overcomes some of the problems of a voluntary code, that solution has issues of its own. Once one moves away from gross violations such as genocide, slavery and ethnic cleansing—all of which are current problems—standards differ among cultures. Furthermore, national courts differ in their interpretation of laws and in how they are enforced. These differences are exacerbated by marked differences in corporate influence on the court system cross-nationally.

All of that said, an international agreement on corporate responsibilities for human rights is not around the corner. However, there is no question that the line between the public and private arenas is blurring rapidly and that MNCs (as well as other corporations) have authority in the international political system; they are political actors with significant power. Power and authority entail responsibility and liability and the march in that direction is inexorable. It is in everyone's interest, including MNCs, to have a rule-based international system with transparent standards, effective monitoring and fair enforcement. I would hope that "soft" solutions such as a voluntary code could evolve over time into hard international law, formalized through a convention or treaty enforced by an international institution.

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Endnotes

[1] The Presbyterian Church of Sudan…v. Talisman Energy, 2005, U.S. District court for the Southern District of New York. 374 F. Supp. 2nd 331; 2005 U.S. Dist LEXIS 11368

[2] The most notable case under the Alien Tort Claims Act is that of UNOCAL which was sued for violations of human rights in Burma. The case was settled out of court.

[3] See Cutler, Haufler and Porter (1999) and Hall and Biersteker (2002) for a review.

[4] The draft norms of the Social and Economic Council state that transnational corporations are responsible for promoting and securing the human rights set forth in the Universal Declaration of Human Rights. (United Nations Social and Economic Council 2003).

[5] The U.N. Compact is an example of one such voluntary code. (http://www.unglobalcompact.org/Portal/Default.asp?)

Internationalization, Distance Barriers and Home Country Size, Lessons from the World Investment Report 2005

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Once a year the International Investment Report publishes a list of the one hundred leading Transnational Enterprises. The list, whose composition changes little from year to year, makes fascinating reading. Enterprises included in it are ranked on the basis of their foreign based assets. It is hardly surprising that the list is topped by US based General Electric Corporation. Discerning readers are offered an alternative ranking scheme, this one based on what the Report terms, the index of transnationality (TNI), which seeks to represent the firms' level of internationalization. General Electric, the firm with the largest foreign assets, is ranked no. 77 on the basis of the TNI index. By comparison, the Dutch based Philips Corporation is ranked number 44 on the basis of foreign assets and as no. 6, on the basis of the TNI index. On this basis Philips, which boasts 263 foreign affiliates, is much more internationalized than General Electric, which has 1068 foreign affiliates.

What does "internationalization" mean? How should it be measured? Is the economic size of the home country related in some sense to the internationalization level of it firms? If so, what are the policy implications? These are some of the questions which a careful analysis of the World Investment Report can help to answer or at least clarify. The empirical analysis is preceded by a discussion of the terms "internationalization" and "distance premium", which are extensively used in this paper. It is followed by a discussion of the factors which motivate internationalization and their impact on the relationship between home country size and internationalization levels of firms. The discussion suggests a number of empirically testable propositions. Presentation of the findings is followed by a brief discussion of policy implications.

Internationalization, Distance Premium and Motivation of FDI

The term "internationalization" refers to the geographic spread of firms' value adding activities. Internationalization implies the existence of a "home country" and of one or more foreign countries. The home country is presumably the country where the firm originates and where some of its major activities are located. Other countries include "host" countries, where marketing, production and R&D affiliates are located and "target countries" to which the firms' output is directed. Host and target countries may of course overlap, as when exports from the home country are sold in the target country by a wholly or partially owned local sales subsidiary.

The distinction between home and foreign countries is crucial to the understanding of internationalization. It is predicated on the presence of barriers, trade barriers, cultural barriers, legal barriers and economic barriers, which we lump together under the heading of a "distance premium".

Distance premium should not be confused with distance costs, the costs incurred in the process of overcoming geographic distance. These costs, which consist mostly of transportation charges, are incurred both within and between countries. The term Distance Premium (DP) is best viewed as a step function. DP occurs whenever transactions are conducted across national borders. It is generated by the existence of systematic differences between the costs of domestic and foreign interactions. DP consists of man made trade barriers such as tariffs imposed on imports. It is augmented by the need faced by parties engaged in international transactions, to employ more than a single language, to use different currencies, to comply with the dictates of multiple health and safety regulations, and to conform to the prescriptions of different legal systems.

Thus DP, which inevitably accompanies cross border transactions, gives rise to what the late Stephan Hymer termed the "cost of foreignness" (Hymer 1976). The level of DP has been considerably reduced by international trade and investment agreements, by harmonization of regulations, and most important, by technological developments in transportation and communication, which have dramatically reduced the costs of engaging in international business. Though much diminished during the last few decades, DP continues to exist, and its persistence helps to explain the distinctive characteristics of international business transactions.

Some insights into the effect of DP on the internationalization of firms can be derived from an analysis of the TNI index used by UNCTAD, which was mentioned earlier. The TNI index is calculated as a simple average of three ratios: Foreign to total sales, foreign to total assets and foreign to total employment. Each ratio, which highlights a different aspect of international value activities, can be related to the well known motives for internationalization suggested by Dunning and Stopford: Market seeking, resource seeking, efficiency seeking and strategic advantage seeking. (Dunning 1988, Stopford, Strange & Henley 1991)

Market seeking internationalization is prevalent when the home market is too small to absorb the firm's production capacity. Foreign markets will be served by exporting from the home market when international trade barriers are low and when production capacity of the home country's existing plants exceeds the quantity demanded in the home market. When exporting is infeasible because of natural or man made trade barriers i.e. because of high DP, internationalization may be realized by other means such as FDI or licensing.

Market seeking internationalization is empirically manifested by the ratio of international to total sales. Note, however, that while firms engaged in exporting will tend to have a high ratio of international to total sales, non-exporting firms with production affiliates abroad, might also exhibit a high ratio of international to total sales. A high ratio is consistent with both low DP, which promotes exports, and high DP which gives rise to foreign direct investment. A high ratio thus reflects market seeking, but it fails to account for the type of DP which motivated it.

Resource seeking is motivated by different considerations, which pertain to the availability, price or quality of the inputs used by the firm. When raw materials, intermediate inputs or foreign labor are either less costly or qualitatively superior, or more abundant than in the home country, internationalization is motivated by resource seeking. This type of internationalization is reflected by the ratio of foreign to total employment and/or foreign to total assets.

The TNI index is calculated as a simple average of three ratios: Foreign to total sales, foreign to total assets and foreign to total employment.

Efficiency seeking is possibly the motive most directly related to DP, whose existence penalizes small countries and small country firms. Small countries cannot take advantage of potential scale economies when the size of the domestic market is too small to absorb the output of a single industrial plant operating at minimum costs. In the absence of DP, the size of the domestic market does not matter, since some or even all of the output can be exported. When DP exists, exploitation of scale economies may be impossible even in some cases where the small home country enjoys favorable "factor conditions" (Hirsch and Donnenfeld 1994, Porter 1990).

Small country multinationals suffer

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from an additional handicap. Assuming that global markets and global resources are randomly distributed, then it follows that small country multinationals will have a higher share of their value activities located abroad than their large country counterparts. In the absence of DP, this would not constitute a problem. When DP exists, small country multinationals will be handicapped by the extra burden of the distance premium it incurs. Internationalization is thus related to country size in more than one sense. It enables small country firms to overcome the negative effects of their small home base. Internationalization enables small country firms to benefit from scale economies, to access markets and human as well as material resources not available in their small home market. The gains from internationalization are, however, limited by the distance premium which constitute an economic burden (or tax?) not borne by large country firms.

Empirical Analysis

Four, empirically testable propositions are suggested by these arguments:

1. Large countries will have a disproportionate number of TNEs in comparison with small countries.
2. Large countries' TNEs will have a larger size than TNEs from small countries.
3. TNEs from small countries tend to be more internationalized in the sense that their TNI index will be higher than the index of large country multinationals.

Table 1

Country size, TNEs' Characteristics and Level of Internationalization

	Country	Number of TNEs	GDP ($Millions, 2004)	Sales ($Millions, 2003)	TNI index (Percentage, 2003)
1	United States	19	11,667,515	70,766	44.1
2	Japan	9	4,623,398	89,937	42.8
3	Germany	11	2,714,418	63,329	48.7
4	**Sub Total Large Countries**	**39**	**6,335,110**	**73,092**	**45.1**
5	United Kingdom	8	2,140,898	58,914	69.0
6	France	11	2,002,582	31,016	60.8
7	Italy	2	1,672,302	44,086	42.7
8	Spain	1	991,442	32,054	46.9
9	Canada	2	979,764	10,900	91.2
10	Korea, Rep.	1	679,674	54,349	44.1
11	Australia	1	631,256	19,086	92.5
12	Netherlands	2	577,260	48,028	79.6
13	Switzerland	4	359,465	30,891	74.6
14	Sweden	1	346,404	24,023	73.5
15	Norway	1	250,168	25,716	66.8
16	Finland	2	186,597	26,288	69.9
17	Other countries	3	142,790	13,064	77.3
18	**Subtotal Small Countries**	**39**	**843,123**	**29,782**	**68.0**
19	**Total Sample**	**78**		**51,437**	**56.6**

Sources: UNCTAD, 2005; World Bank, 2005.

These propositions are tested on the data relating to the world's leading transnational corporations contained in the latest World Investment Report.

Table 1 shows figures relating to 78 multinational enterprises contained in the UNCTAD report. The columns show home country, number of TNEs ,(transnational enterprises which is the term used by UNTAD to denote multinational firms), GDP of the home country, sales level per firm and the level of their transnationality (TNI) index which, as noted above, measures the relative importance of their foreign based value activities. Oil companies and firms engaged in the supply of water, electricity and other non-tradables, were excluded from the original list of 100 firms.

Note first that the US Japan and Germany are the home countries of 39, i.e. one half of the largest 78 multinationals included in the UNCTAD study. The three largest countries, in terms of their gross domestic product, have a disproportionate number of multinational firms. This relationship between country size and the number of its multinational firms is consistent with proposition 1. A disproportionate number of multinational enterprises is indeed expected in a world where DP is both positive and significant. It makes no sense in a world where DP does not exist.

The second proposition was that large country multinationals are larger than multinationals from small countries. Taking firm sales to represent size, we note that average sales of the 39 firms from the US, Japan and Germany exceeds \$73 billion. Average sales of the 39 firms from the remaining countries covered by the UNCTAD Report, is less than \$30 billion. Such a difference is explained by the persistence of the distance premium which must be large enough to adversely affect internationalization of firms from small home countries.

Turning to the relationship between firm size and the value of their TNI index we note an inverse relationship. The three largest countries' multinationals are, on average, larger than multinationals from the smaller countries, while their TNI index is smaller. This observation is further confirmed by the value of the correlation coefficient between the TNI Index and the GDP of the home country, which exceeds -0.5.

To summarize, the figures in Table 1 which is based on a sample of the largest multinational firms contained in the 2005 Annual report of UNCTAD show that large countries tend to have more and larger multinational firms than small countries, while the small country firms are on average more internationalized, when internationalization is measure by the level of the TNI index. These finding are consistent with expectations suggested by the concept of Distance Premium, the cost differences incurred by firms engaged in international as compared with domestic transactions.

Policy Implications

The policy implications suggested by this analysis concern the distance premium whose negative effects were clearly identified. The distance premium is partly a natural and partly a man-made phenomenon. Analysis of the costs associated with geographic distance illustrates the declining importance of so called "natural barriers". Rail transportation developed in the nineteenth century, road transportation, in the first half of the twentieth century and air transportation in the second half, have dramatically reduced the costs of moving goods within and between countries. These technological cum economic developments have revolutionized the global economy by transforming a vast array of agricultural and industrial products from non-tradables into tradables. They have similarly facilitated of vast uninhabited regions into major suppliers of raw materials agricultural produce and later on of industrial products. Technological developments in communication technology have had even a more dramatic impact on services and service-intensive goods. The enormous impact of the internet and of other developments derived from the merging between communication and computation technologies, on the scope and volume of business transactions remains to be assessed.

On the other hand, the distance pre-

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mium, which is defined as the excess of international over domestic interaction costs persists, and is not likely to disappear in the foreseeable future. The causes are largely attributable to political considerations. Governments which create the distance premium, use them to advance public policies related to the desire to preserve national sovereignty. The famous intellectual exercise associated with the "Completion of the European Market in 1992" illustrates in impressive detail the trade and investment barriers which needed (and still need?) to be cleared away before the single European market could become a reality. (Checchini 1988)

Further reduction of the distance premium must be a goal which public policy makers, should be urged to pursue. A lower distance premium will benefit particularly small country firms since internationalization is, as was shown in this paper, an efficient way to neutralize the negative effects of the small home market and small resource base.

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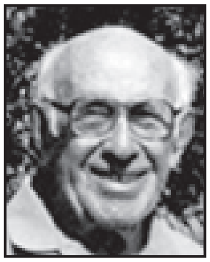

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Chazen Corner: An Afternoon with a Pioneer in International Business Education[1]

A pioneer in the field of international business education, Robert D. Calkins Professor Emeritus of International Business Stefan Robock joined Columbia's faculty in 1967. As chair of the international business program at Columbia and before that at Indiana University, Professor Robock played a major role in internationalizing the MBA curriculum and has impacted a generation of international business leaders.

Let's start with the obvious question: why is a curriculum in international business important?

It's important because of—and I hate to use the word—globalization. Business firms, not only in the United States, but in other countries, are becoming multinational, and there are different issues that arise as a result: foreign exchange, foreign exchange risk, different legal systems, and different cultures.

I was talking to a former international businessperson and he was telling me about how the Chinese government worked out a joint venture with an American electronics firm. Toward the end of negotiations, the American lawyers came in and worked out a contract with a special clause, and the Chinese said, what is this clause? The lawyers explained, well, this means the contract is void if something unusual happens. The Chinese said, like what? And the Americans said, like an act of god. And the Chinese said, an act of *whose* god, yours or ours?

Now that's a little different issue that comes up when you have an international business.

Speaking of globalization, how has that impacted the attitude towards international business over the years?

Multinational firms were considered negatively throughout much of the world during the 70s. There was a very important case. One of the chemical companies had a plant in India that emitted some poisonous gas which killed hundreds of people. So the focus in many countries on multinational firms was not what good they were doing but what bad they were doing.

Now there are all kinds of non-official agencies that are researching the behavior of multinational firms around the world. In general, though, the attitude toward multinational has turned favorable. Most countries around the world are now anxious to get international business, and the multinational firms have become more and more sensitive to the needs and demands of the host countries—they realize that it's good business.

I think the next century will be a favorable environment for international business. However, businesses have to be sensitive to the conditions of foreign

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countries, particularly in less developed countries.

The outlook is favorable, but you better understand that it might be a different god than the one they're talking about, like the Chinese fellow mentioned, and you have to be sensitive to this.

So, you were a pioneer in the field of international business education. What were some of the challenges you faced in defining the field?

One of the principal challenges is defining the field of international business. It's easy to make a decision to give an international dimension to business school training. But the question is what should it be? What kind of textbooks? What kinds of materials? We puzzled over that trying to put together a broad course that covered the whole field, and I felt that we were having lots of difficulties and we needed help. So we decided to have a conference, just a small group that we knew about, to talk about what the field of international business should be.

When the word got out that we were having a conference on international business, deans or representatives of deans from 80 schools asked to come to the conference. In other words, the issue was on many people's minds. They all felt they needed help. And one of the principal conclusions coming out of this conference was what we thought the field of international business should cover.

What did you decide?

Well, first, there were many people who said, why do you need an international business program? Chemists said, we don't have international chemistry, we just have chemistry. Management is management. Why do we need *international* management?

In the conference, it came down to three options.

International business would be a subject that focused on specific countries and worked on the question of how do you operate business-wise in a specific country. We would have a course on doing business in China, doing business in Africa, and so on.

That's one choice.

The other choice was making a comparative study: what are the differences and similarities in the way business operates in different countries?

The third choice was the one we decided on, and that was to focus on those issues that arise when business crosses national boundaries. When money moves, you have the whole question of foreign exchange. When legal issues arise, you have different legal systems. When labor relations arise, you have different labor union histories in different countries.

In other words, what are the principal issues that arise when business crosses national boundaries?

How has that definition of international business changed over the years?

It's still the fundamental principle on which international business is set. But it has expanded into international marketing, international accounting, different functional specialties focusing on international dimensions in the field. For example, before the field of international business was founded, anyone studying accounting in one of these schools would never hear the word foreign exchange.

An interesting story happened at Indiana. A graduate of the Indiana Business School asked one of our students, "I hear you've got a field of international business, what's this all about?" Our student told him about our program, and the Indiana graduate said, "Gee, that's interesting. I work at one of these accounting firms, and I'm here in Indianapolis auditing the books of Eli Lilly, and I found out, looking at Brazil, that they have a different currency."

He was a graduate of a graduate program in business and he had never been taught that there were different currencies in different countries! He even said, "I hear the currency (*cruzeiro*)is 'crazy arrow.'"

What were some of the other challenges you faced?

One of the problems of course was finding teaching materials. There were no textbooks. There was very little research on overseas operations -- maybe a couple of books on foreign investment in Latin America. There was difficulty in publishing articles. Traditionally, the good journals had not enlarged their scope of interest into international issues. It was hard to get anything published.

Columbia was very helpful in that respect. Columbia set up *The Columbia Journal of World Business*, which was probably the best international business journal at the time. But being a new journal, articles in the journal were not necessarily accepted for tenure decisions. It took a long time before that occurred.

Placing students afterwards was another concerning problem. Chief executives of many businesses came and made speeches about what a wonderful thing this was that the business schools were including the international dimensions of business, but when the recruiters came to recruit, they weren't interested in anybody who had a major in international business.

So, in the early days, we had to have our students develop another area of interest: finance, marketing or accounting, and international business would be a supplement, a complement to that. Those were some of the difficulties involved in developing the field.

When did the program end?

Courtney Brown (dean of the Business School, 1954-1969) retired shortly after I came here in 1967, and Bob Yavitz (dean, 1975-1982) became the dean. On the way to a faculty meeting one day, Bob said, "Steve, you won't like this, but I'm going to suggest we eliminate the international business department and move international into all of the departments."

I said, "Bob, that's wonderful idea."

He was shocked.

I said, "However, I think you've got to do three things. One is you have to set up as a condition for recruitment, that the person shall be or should become competent in the international dimension of his or her field.

"Two, provide time off and funds for traveling so that in case they need to develop the experience internationally, they will be supported. Three, make it a condition for tenure." And Bob shook his head, and said "No way, no way."

I don't think that's still been a condition for tenure.

Eventually, Columbia moved to eliminate the international business department, and tried to internationalize the whole school.

But this is the same problem an international company runs into. When they first go international they set up an international department, and, eventually, they work towards internationalizing all departments of the company so that everybody is sensitive to the opportunities and issues involved internationally.

How would you rate Columbia's internationalism now?

Columbia is doing things internationally now that fifty years ago I didn't think were possible. Coming out of the depression and so on, I didn't think we could set up a program to arrange for our graduate students to take trips overseas that were related to the international business field.

I never thought we could work out an exchange program with other universities. I didn't think we could make language training available. These are all things that have happened.

What do you think the impact has been of the international business program at Columbia?

Well, I think that the academic research and the training of people who have been specializing in this field have in many cases been in advance of the operational practices of multinational firms. I ran into a friend of mine in Brazil in the international pe-

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troleum field. He said, "I looked at your textbook in finance, and I have a lot of suggestions on things that we are now doing that we weren't doing before." I think we have made useful contributions. It's not just a matter of teaching students what's going on. It's also teaching them what can be done better.

You talked abut the fact that some schools developed international business departments that were separate from other departments. Do you think that business schools today need separate departments in business?

This is an issue that is still being debated after fifty years, in different schools. Every time we have an annual meeting of the Academy of International Business, I run into people who say, "In our school, we are having a problem because they want to eliminate the international business department."

If the school will do the three things I mentioned earlier, I think it will work out. But just to eliminate the department of international business and put 'international' into the title of other courses doesn't solve the problem. The truth is, professors teach what they know, and if they don't know the field it doesn't help to put 'international' in the marketing department.

Whether it works out will depend on whether there's a strong dean who will provide facilities for people to develop their international competence. Sometimes it works out and sometimes it doesn't.

Any thing else you want to add?

With all this concern about corrupt management by business firms that has occurred in the last four or five years, I think the business schools have gotten off too easy. I've felt that our business curriculum has been responsible for many of the problems that have occurred, particularly in the field of finance and the field of accounting. I was at a conference in Copenhagen last December where I gave a paper on this issue. I said to the faculty there, "How many of you think that the heads of your department of finance should be put in jail?" Everybody raised his hand. "How many of you think that the heads of your accounting department should be put in jail?" (Raises hands above head).

Schools are becoming aware of it, but they've been lucky. They haven't been put in the spotlight about their contribution to what's been done.

Now, this is very important internationally. Business firms should not get involved in bribery and other unethical events.

I would like to see more research about the ethical issue in the international business field. There are many issues that we haven't had people do research on, and I think that's one of them.

Footnotes

[1] This interview originally appeared in *Bottom Line, The Voice of the Columbia Business School* on November 11, 2004 and was conducted by Ben Monnie, a Chazen Fellow. Reprinted with permission from The Chazen Institute at the Columbia Business School.