



TAPMI Research Newsletter

Vol. 1 No. 1, September 2009

Inside

Articles in Journals	01
Books & Book Chapters	02
Case Studies	02
Conferences and Seminars	02
Achievements	02
Tapmi Research Compendium, 2009	03
Research Seminars at TAPMI	03
Forthcoming Research Seminars	04
Seminars/Conferences Organized	05
Forthcoming Seminars/Conferences	05
Concept Papers by Students	05

Message from Chairperson

*Greetings from the
Research and Promotions Committee (RPC), TAPMI!*

We are glad to bring out the first issue of the **Research Newsletter** at T. A. Pai Management Institute. Research at TAPMI aims at providing a better interface with the academic and business world. TAPMI has realized research as the ability to think openly and inquire deeply into anything that is either related a) directly to better managerial practices or b) indirectly to things that would eventually give rise to better managerial practice or c) to theoretical frameworks which enable reassessment and refinement of managerial thinking. There have been several initiatives in TAPMI to create research interdependencies. They are working in faculty collaborations both inside TAPMI and outside, faculty student collaborative research, research by alumni and more than anything else creating a culture of intellectual discourse and recognition.

In view of this, RPC decided to bring out a Research Newsletter and I, on behalf of RPC, am pleased to present the first issue of **TAPMI Research Newsletter** for the period April-September, 2009. During this period two books, eight refereed articles, two case studies, one article in an edited book, and eleven articles in TAPMI Research Compendium have been published by faculty at TAPMI. Eight research seminars are presented at TAPMI by members of the faculty and invited speakers from national and international institutions. Four research papers have already been presented and four research papers have been accepted for presentation in various national and international conferences. At the same time, TAPMI has organized two conferences and two more are to be organized during this academic year, 2009-10. This shows that TAPMI has adopted not only knowledge creation but also knowledge dissemination as the path of research.

By bringing together in a single issue a collection of wide range of management research news, we made an effort to make this useful to the reader. If you find that any of the research works reported in this Newsletter might be useful, do write to us. RPC would be glad to forward your request to the faculty concerned. We look forward to your feedback on this issue of 'Research Newsletter' for further improvement.

Dr. Pratap Chandra Biswal
Chairperson, Research and Promotions Committee

Articles in Journals

Ajith Kumar & L.S. Ganesh, 2009. Research on Knowledge Transfer in Organizations: Morphology. *Journal of Knowledge Management*, Vol 13, No. 6.

This morphology, which is a comprehensive framework characterizing the knowledge transfer literature in terms of dimensions and options, was developed by an extensive scanning of the pertinent literature. Eight dimensions were found suitable to characterize the knowledge transfer research literature. Corresponding to each dimension, two to six options were found. The morphology demonstrates the extensiveness and variety of knowledge transfer research. To academics, the morphology can serve as a map of the knowledge transfer territory. Using the morphology, researchers can easily assess how an existing study fits in with the entire body of knowledge transfer research. Secondly, they can discern areas that have received less attention in comparison to others and thus identify gaps they may wish to address in a new study. KM practitioners can use the morphology to assess their knowledge transfer strategies in terms of the dimensions it currently has/lacks, and take appropriate decisions.

Pratap Chandra Biswal, 2009. Price Discovery in Futures and Spot Commodity Markets in India. *Al-Barkaat Journal of Finance & Management*, Vol-1 (1)

The Indian commodity futures markets recorded a 373% growth during 2005-06. Despite this growth rate there are quite apprehensions about the effect of commodity futures on its underlying assets in India. To empirically examine the above issue, this study investigated the role of commodity futures market in performing the function of price discovery. The significance of price discovery depends upon a close relationship between futures and spot prices. The price linkage between futures market and spot market has been investigated using cointegration (Johansen, 1991) analysis. The cointegrating vectors define the long run equilibrium while error correction dynamics characterize the price discovery process, whereby markets attempt to find equilibrium. To perform the cointegration and error correction dynamics, this study used four futures and spot indices of Multi-Commodity Exchange (MCX), Mumbai. The results show that futures and spot markets in MCX are cointegrated and sharing a long run relationship. There is a causality flow from futures markets towards spot markets indicating information flow from futures to spot markets. At the same time, there is also a reverse information flow happening in case of metals signifying price discovery in both futures and spot markets.

R. C. Natarajan, 2009. Halo Effect in Trust. *ICFAlAn Journal of Management Research*.

Trust-literature considers goodwill trust and competence trust as two distinct types of trust. Many well-known scholars have mentioned the two bases of trust as being different. However, the veracity of this distinction does not seem to have been addressed by researchers. This paper suggests

an experiment to test whether the two types of trust are indeed distinct, and the results throw up a surprising finding that they are very highly and positively related, and hence, not distinct. Principal's perception of agent's trustworthiness does not seem distinctly clear-cut as competence-based or goodwill-based, despite scholars' mentioning them as different. The paper offers a plausible explanation through the concept of 'halo effect'. The contribution of this paper to management practice lies in bringing out the presence of halo effect in trust that may well indicate the possible wastage of resources in superfluous controls and/or the failure to implement appropriate controls required.

Madhuchhanda Das Aundhe & Saji K. Mathew, 2009. Risk mitigation in offshore IT outsourcing contracts: a service provider perspective. *European Management Journal*, Vol. 27, No. 6, pp. 418-428.

Offshore outsourcing of Information Technology (IT) services is the prevalent practice in global businesses today. Despite the strategic advantages and cost benefits that offshore outsourcing offers, outsourcing relationships also involve risks, for both the client, as well as the service provider a fact that is evidenced by the reported failures of such engagements. Some of the prior researches in this area have focused on identifying various types of client risks and their sources. However, the study of risks from a service providers perspective has not received due treatment in literature. This study analyses offshore IT outsourcing risks from the perspective of service providers. A case based approach using the principles of grounded theory was used for studying the risks. Theoretical sampling was used to collect data from 5 mid-tier offshore third party service providers based in Bangalore, India. From our coding and analysis three broad categories of service provider risks emerged, namely, macroeconomic, relationship specific and project specific. Relationship maturity, nature of contract, nature of service or project and nature of client were identified as contextual factors which influence the degree of risk.

Satyajit Majumdar. How do they plan for growth in auto component business?-A study on small foundries of western India. Forthcoming in *Journal of Business Venturing*.

Entrepreneurs of small organisations describe growth differently. Growth strategy of these organisations is a function of industry structure and performance, entrepreneurial motivation, attitude, and competence of the entrepreneurs in strategy planning. The article based on Grounded Theory approach is an attempt in developing a theoretical framework on growth strategy planning in small entrepreneurial organizations. Two major patterns are emerging. In 'relationship based strategy' entrepreneurial vision towards strengthening relationship is the basis for growth planning. Trust, cooperation, community and society benefit are important dimensions. In 'technology based strategy' the entrepreneurs choose technology to achieve excellence in product and process performance, and need investment and risk bearing capability.

Alan Wong, Fu Long & **Elankumaran S.** Business Students' Perceptions of Corporate Social Responsibility: The United States, India, and China. Forthcoming in *Corporate Social Responsibility and Environmental Management*.

Alan Wong & **Elankumaran S.** Business Students' Perceptions of Corporate Social Responsibility in the United

States and India. Forthcoming in *International Journal of Business and Public Administration*.

Saji Gopinath, 2009. A Risk Based Material Procurement Policy for Humanitarian Supply Chains. Forthcoming in *Disaster Prevention and Management*.

Books & Book Chapters

R. C. Natarajan, 2009. Marketing Channels, *Pearson Education*, 7/e.

Toppur N. Badri, Render, Stair Jr. and Hanna, 2009. Contributed text and problems to Quantitative Analysis for Management. *Pearson*, 10th edition.

Madhuchhanda Das Aundhe, Ravi Anupindi & Mainak Sarkar. 2009. Healthcare Delivery Models and the Role of Telemedicine, *Indian Economic Superpower: Fiction of Future*. World Scientific, Singapore.

Case Studies

R. C. Natrajan, 2009. Apollo Health & Lifestyle Limited. *Vikalp, IIM-Ahmedabad*. April-June.

Satyajit Majumdar, 2009. Nishotech Systems Private Limited. *Entrepreneurship Development Indian Cases*, Tata McGraw Hill, New Delhi.

Conferences and Seminars

Chowdari Prasad & students of PGP 2007-09(Marketing). *Woman Entrepreneurs and Networking*. Harnessing Entrepreneurial Potential of Women For Economic Growth" organized by Manipal Institute of Management, Manipal in collaboration with Asian Centre for Entrepreneurial Initiatives (ASCENT), Bangalore on January 22-24, 2009.

Satyajit Majumdar, 2009. *Polyhydron Transforming to a Family Managed Business*. Second Asian Conference on Family Business organized by Indian School of Business, Hyderabad on February 6-8, 2009.

Chowdari Prasad & students of PGP 2007-2009(Marketing). *Micro Finance and Women Empowerment: Problems and Prospects*. National Seminar on Micro Finance and Women Empowerment, organized by Department of Commerce, Yogi Vemana University, Kadapa, AP on March 12-13, 2009.

Chowdari Prasad & Vamshi Krishna Arumbaka, 2009. *Customer as co-creator of Value: Crossing the Technology Hurdle*. National Seminar on Creating and Delivering Value for Customers, School of Management Studies Cochin University of Science and Technology, held on March 27-28, 2009.

T. N. Badri & B. Sasidhar, 2009. *O. R. in Cost Allocation of Operational Materials at a Still Mill*. DRSI Convention and APORS 2009, Jaipur, to be held on December 6-9, 2009.

V. Vijiya & Ajit Chakravarti, 2009 *Understanding Relationship Building*. 8th Biennial Conference of the Asian Association of Social Psychology, Delhi, to be held on December 11-13, 2009

H. S. Srivatsa, 2009. *Banking Channel Psychographics of Retail Banking Customers of Karnataka (India) - An Exploratory Study*. Third Great Lakes NASMEI Marketing Conference, to be held on December 18-19, 2009.

Saji K. Mathew & Pratap Chandra Biswal, 2009. *Mark-Down pricing models: The study of a fashion apparel retailer in the Indian market*. 13th Society of Operations Management Conference, IIT-Chennai to be held on December 20-22, 2009.

Achievements

Satyajit Majumdar has been awarded the *Galpin Fellowship* by *Quinnipiac University, Hamden, USA* for the year 2008-2009.

Madhuchhanda Das Aundhe has been awarded the *Fullbright-Neheru Senior Research Fellowship* for the year 2010-2011.



TAPMI Research Compendium, 2009

Saji K. Mathew, Nilesh Gowda & Saurabh Diwakar, 2009. Review of Reasons for Failure in Outsourcing when Objective is Cost Effectiveness.

Saji K. Mathew, Nimkee Gupta & Devi Vidya, 2009. Managing IT Outsourcing: Impact of Offshoring on Client Countries.

A. V. Rajagopalan & Dr. Vandana Garg, 2009. Analysis of Stress in Service Sector - A Revisit to Our Roots.

Ajith Kumar J. & Amit Kumar, 2009. Organizational Learning in Small and Medium Size Enterprises: The Case of Actual Cashew.

Vrishali N. Bhat, Uppiliappan Srinivasan, 2009. Corporate Debt Restructuring An Indian Perspective.

Pratap Chandra Biswal, Abhishek Nandi Roy, Anmol Kakani, Jebin Thomas Varghese & Kartik Niyogi, 2009. Interest Rate Futures in India: Issues & Challenges.

Pratap Chandra Biswal, Himanshu Sangatwani, Pawandeep, Saikat Sinha Biswas & Shreyes Khator, 2009. Issues and Challenges of Credit Derivatives Market in India.

Pratap Chandra Biswal, Devi Prasad Y, Pankaj Jain, Pankaj Saria, Prasanna R & Raghavendra N.P., 2009. Exchange Rate Volatility and International Trade in India.

Anuradha R. & Anukhya Buddhharaju, 2009. Through the looking glass: Mentoring Model for MBA pursuits.

A. V. Rajagopalan & Lakshmi Narasimhan, 2009. Kautiliya's Arthashastra and Simon's Levers of Management Control - A contemporary approach.

Research Seminars held at TAPMI

1st July 2009

Speaker

Prof. Gururaj Kidiyoor

T.A. Pai Management Institute

Perceived Risk in the Adoption of High Technology Innovations in Business Buying

15th July 2009

Speaker

Prof. H. S. Srivatsa

T. A. Pai Management Institute

Psychographic Segmentation of Retail Banking Customers of Karnataka: An Exploratory Study

29th July 2009

Speaker

Prof. Rajiv V. Shah

T. A. Pai Management Institute

Direct Taxes in India and TDS Planning For Salaried Individuals

12th August 2009

Speaker

Prof. A. Sivakumar

T. A. Pai Management Institute

Cognitive Engineering in Medical Device Design for BOP Market: The Point of Care Malaria Detection Kit

26th August 2009

Speaker

Prof. Vrishali Bhat

T.A. Pai Management Institute

Impact of Market Risks on Indian Firms Issuing Foreign Currency Convertible Bonds

9th September 2009

Speaker

Prof. Suresh Kalagnanam

Edwards School of Business, University of Saskatchewan, Canada

Education Accountability: The Role of Business Performance Models

21st September 2009

Speaker

Prof. S. Bharadhwaj

Great Lakes Institute of Management, Chennai

The Effect of Personality and Situational Variables

23rd September 2009

Speaker

Prof. Pratap C. Biswal

T.A. Pai Management Institute

Relative Price Discovery between Futures and Options Markets in India



Forthcoming Research Seminars

7th October 2009

Speaker

Prof. R. C. Natarajan

T. A. Pai Management Institute

Impact of Turbulence of Learning & Resilience of Supply Chain an Experimental Study

21st October 2009

Speaker

Prof. Madhuchhanda Das Aundhe

T. A. Pai Management Institute

Technology Adoption in e-Governance

28th October 2009

Speaker

Prof. Joshua A. J.

Manipal Institute of Management

Adoption of Technology Enabled Banking Self-Services: Antecedents and Consequences

4th November 2009

Speaker

Prof. K. J. Jaims

T. A. Pai Management Institute

Experiential Branding: A comparative Case Study of Kingfisher Airlines and Veegaland Theme Park

18th November 2009

Speaker

Prof. Saji Gopinath

T. A. Pai Management Institute

Managing Non-Dominant Player Supply Chains: Developing an Agent Modeling Framework through Social Simulation Experiments

2nd December 2009

Speaker

Prof. S. Shijin

T. A. Pai Management Institute

Human Capital and Predictable Stock Returns: A Dynamic Asset Pricing Approach

16th December 2009

Speaker

Prof. R. Chadaga

T. A. Pai Management Institute

Emotional Intelligence - Its Importance in Organizational Performance

30th December 2009

Speakers

Prof. Saji K. Mathew &

Prof. Madhuchhanda Das Aundhe

T. A. Pai Management Institute

Risk in Infrastructure Management Services

13th January 2010

Speaker

Prof. V. Vijaya

T. A. Pai Management Institute

Understanding Relationship Building in Business - A Case

27th January 2010

Speaker

Prof. Saji K. Mathew

T.A. Pai Management Institute

Risk Mitigation through Relationship in Offshore Software Development

10th February 2010

Speaker

Prof. Raghunath Rudran

T. A. Pai Management Institute

The Effect of Service System Impact & Supply Chain Responsiveness on Customer Satisfaction in the Context of Ayurveda Services

24th February 2010

Speaker

Prof. Mohankumar V.

T. A. Pai Management Institute

How ICT can be Effectively Utilized for Improving the Quality of Education at the Secondary Level

10th March 2010

Speaker

Prof. A. V. Rajagopalan

T. A. Pai Management Institute

Reforms in Government Accounting & Finance

24th March 2010

Speakers

Prof. Devi Prasad Bedari &

Prof. Sasidhar B.

T. A. Pai Management Institute

Cost of Profit Efficiency of Chinese and Indian Textile Firms



Seminars/Conferences Organized by TAPMI

'Serving the Bottom of the Pyramid Customers'

Held at TAPMI, Manipal
5th and 6th September 2009

Conference Coordinators

Prof. Vrishali Bhat & Prof. Srivatsa H. S.

'E-Governance for Sustainable Growth'

Held at Capitol, Bangalore
19th September 2009

Conference Coordinators

**Prof. Mohankumar V., Prof. Sasidhar B. &
Prof. Jaba Mukherjee Gupta**



Forthcoming Seminars/Conferences

'Disha '09- The HR Conclave'

To be held at TAPMI, Manipal
31st October 2009

Conference Coordinator

Prof. Elankumaran S.

'Next Stage of India's Economic Growth - Redefining the Role of Banking and Financial Institutions.'

To be held at TAPMI, Manipal
3rd November, 2009.

Conference Coordinators

Prof. Chowdari Prasad & Prof. S. Shijin

Concept Papers by Students

Structure & Overview: Indian Tyre Industry

Rakshit Chaudhary¹

Unlike many of the inventions of the 19th century, the invention of pneumatic tyre was not by accident. It was the desire of a father to provide his son with a more comfortable ride that led to the invention of the tyre in 1888. John Dunlop, a Scot, was disturbed by the discomfort his son had to face while riding the tri-cycle. To help improve his riding comfort, John Dunlop attached thin sheets of rubber to his tri-cycle and later glued it at the edges to the rim. Then, he filled the tubes with air to provide a cushioning effect to the tri-cycle.

Today's tyres have come a long way since 1888. The initial years (1888-1920) saw rapid changes in tyre technology. The advent of detachable tube tyres and cord tyres in 1915 further increased the popularity of pneumatic tyres across the globe. After the initial period however, the industry did not see much change in tyre technology for a long period of time. Most of the changes were incremental. It was only in the recent past that tubeless and radial tyres have come into use.

Tyre Technology

Before one gets to the different tyre technologies, one needs to know how a tyre is constructed.

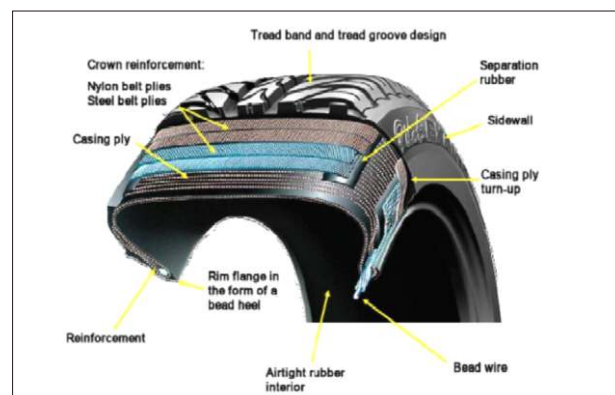


Figure 1: Schematic of a tyre's construction (Source: Michelin Fact Book).

¹ PGP II student at T. A. Pai Management Institute, Manipal 576104, India.

Figure 1 gives a schematic of tyre construction. The main components of a tyre as seen above are

- **Airtight rubber interior:** Forms the foundation around which the tyre is built. Adds to the structural strength of the tyre.
- **Bead wire:** Helps in locking the tyre to the wheel rim. This defines and forms the tyre inner diameter.
- **Side walls:** All the necessary information about the tyre is mentioned on the side walls. The side walls withstand flexing and weathering.
- **Carcass:** The diagonal ply carcass transmits all loads, braking and steering forces between the wheel and the surface and withstands the burst loads of the tyre under operating pressure. The carcass is made up of number of layers of tyre cords sandwiched in rubber.
- **Nylon/steel belt plies:** Provide the tyre with structural strength and are responsible for the load carrying capacity rating of the tyre
- **Thread:** Provides the vehicles with traction. It also helps protect the carcass of the tyre.

Based on their construction design, tyres are primarily classified as

- **Cross ply/Bias ply:** In cross ply tyres, the ply cords (usually nylon cords) are laid from one bead to the other at an angle (varying from 250 to 600) to the direction of travel. The stiffness of the tyre depends on the angle of the cords. The standard tyres usually have an angle of about 380. Cross ply tyres are structurally very robust and are used for all type of driving conditions. Being an old technology, and involving the usage of nylon as the cord material, makes cross ply tyres cheaper than radial tyres.
- **Radial:** In radial tyres, the ply cords (usually steel cords) are laid from one bead to the other at right angles to the center line of the tyre thread, or in other words, the ply cords are perpendicular to the direction of travel. Radial tyres were invented by Michelin in the year 1946. Radial tyres cannot sufficiently absorb lateral forces when cornering or accelerating. They are also known to be less robust when compared to cross ply tyres. Radial tyres are primarily useful when driving on city roads or on highways. They are not meant for off-road driving. The advantages of radial over cross ply tyres are discussed in the 'Radialization' section.

Tyre Industry in India

The Indian tyre industry dates back to the year 1926 when, Dunlop Rubber Limited, a British Company, setup the first tyre manufacturing facility in India. The first Indian company to set up a tyre manufacturing unit was the 'Madras Rubber Factory' now known as MRF which set up its first plant in 1946 at Madras.

The Indian tyre industry has matured over time. Today, the tyre industry in India churns out 81.1 million tyres (FY 08-09) with a turnover of Rs. 200 billion (FY 08-09)². There are a total of 41 big and small players in India. Yet, the industry in India is

a fairly concentrated and oligopoly in nature as about 72% of the total market is captured by the top four players. Of the pack, Apollo Tyres Ltd. is the market leader with a total share of about 23% (tonnage wise) followed closely by MRF with 22%. There is not much that separates the two companies, as the crown of being the market leader changes hands frequently. For the last five years, J.K Tyres Ltd. has held on to its position of number three with a current market share of about 16%. CEAT Ltd. is a far fourth with a present market share of 11%.

Indian Tyre Market

The tyre market in India can be classified into three segments: OEM Market, Replacement Market and Exports Market. With 54% of the total sales taking place in the replacement market, this forms the chunk of the tyre market. The OEM market accounts for about 32% of the total sales and the remaining 14% is attributed to the export market.

Of the total sales, the truck and bus segment accounts for about 64% of the market share in terms of sales value where as passenger cars account only for about 11%.

In the recent years, the tyre industry in India has seen stiff competition from China and South Asian countries in form of cheap imports. The competition from imports is primarily due to the constant reduction in import duty on finished tyres. The tyres that are imported are mainly radial tyres and tyres used by the Aviation industry. In the last five years, the imported tyre market in India has grown with a CAGR of over 80%. With a further decrease in import duty, India imported over 9,30,000 tyres in the year FY 08-09³.

Raw Materials and Costs

The tyre industry is raw material intensive. Raw materials constitute about 75 percent of the tyre cost, making the tyre prices sensitive to fluctuations in raw material prices. Of all the raw materials, natural rubber, nylon fabric cord, carbon black and rubber chemicals constitute about 80 percent of the raw material cost. Other major raw materials used in tyre manufacturing are steel cords, bead wires, synthetic butyl rubber, zinc oxide and fuel oils.

As such, any changes or fluctuations in the raw materials affect the bottom lines of the company. The cost of natural rubber, which forms about 40% of the total raw material cost used in tyre manufacturing, fluctuates on a day to day basis in the international market. Another issue that the Indian tyre industry faces is the fact that the natural rubber produced in India is of low quality as compared to world standards.

Despite significant automation in the manufacturing process, the industry is quite labour intensive as about 5% of the total cost of the tyres can be attributed to manpower. Equally important to the industry in terms of cost is the usage of power/electricity. On an average, a regular tyre for a Santro car will consume about 45 to 50 units of electricity to manufacture.

² CRISIL Research

³ ATMA

Radialization

The wave that swept most of the developed countries in the west during the 1980s was the usage of radial tyres in place of bias ply tyres. Some key advantages of using radial tyres over bias ply tyres are fuel saving, additional mileage and greater driving comfort. Despite all the mentioned benefits, the radialization in India was not (has not been) up to industry expectations. One reason for this has been the absence of good road infrastructure in India, as radial tyres need good roads for their performance. Owing to their design, radial tyres find it difficult to sustain uneven surfaces in form of pits and pot holes. Second reason is the higher price tag attached to radial tyres.

However, over the last few years, the picture in India has improved. The radialization in passenger vehicles has gone up to as high as 97%, but still remains a matter of concern in the commercial vehicles sector, where it is just at about 5-6%. The primary reason for such low acceptance in the commercial vehicle sector is the fact that radial tyres cannot be subjected to overloading. Apart from the above, the fragmented transportation market and high costs of radial tyres (35% more than bias ply) also act as deterrents to the acceptance of radial tyres in this segment.

Future of Indian Tyre Industry

The sales/growth of the tyre industry primarily depends upon the growth of the automobile sector. With the world economy slowing down in the recent past, the automobile industry and in particular the commercial vehicle industry has taken a big dip. This has resulted in a drop in the revenues of the tyre industry. Also with the slowdown, the demand for tyres in the replacement market has also lowered.

In addition to the above, the raw materials, natural rubber in particular, saw a steep increase in prices last year. This resulted in increased costs and affected the bottom line of most of the companies in the industry. With India not being a closed economy anymore, and a constant reduction in import duties on final finished products, competition from other countries is also a big threat for the industry in the future.

Notwithstanding all this, market enthusiasts believe that the future of the Indian tyre industry is bright. The ruling on replacement of all commercial vehicles that are 15 years or older has led the industry to believe that demand for tyres will see an upward surge. Huge investments in the defence sector too are a welcome development.

In all industry still shows promise of growth but as it matures further, the sustainability of profits will depend on internal initiatives like emphasis on research and development, investment in new production technology and cost optimization.

Re-emergence of Protectionism and the Way Ahead

Priyank Daga & Ujwal Kumar⁴

Protectionism

Protectionism is the economic policy of restraining trade between states, through methods such as tariffs on imported goods, restrictive quotas, and a variety of other restrictive government regulations designed to discourage imports, and prevent foreign take-over of local markets and companies. This policy is closely aligned with anti-globalization, and contrasts with free trade, where government barriers to trade are kept to a minimum.

Protectionism in today's world

During crisis, when incomes, investment and jobs are under threat, governments generally try to cushion the blow, in part by erecting new trade barriers. The current crisis is no exception. According to the latest data from the International trade council and World trade organisation, the number of antidumping cases jumped 40% in the first half of 2008 and many nations have already raised tariffs in 2008.

Consequences of open economy⁵

Iceland one of the world's most free economies is going through a major economic crisis which involved the collapse of its banking sector. After Iceland's banks were fully privatised early this century, they began expanding at a rapid pace, with the primary focus of that growth being outside

Iceland. This growth was fuelled by cheap foreign financing, which allowed it to boost its assets from 100 to almost 900 percent of GDP between 2004 and end-2007. This expansion made the Icelandic banking system one of the largest in the world in relation to GDP. The three leading commercial banks (Landsbanki, Kaupping Bank and Glitnir), representing about 85% of total banking assets, all collapsed after the debacle of Lehman Brothers, because of difficulties in refinancing their short-term debt and a run on deposits in the United Kingdom. Relative to the size of its economy, Iceland's banking collapse is the largest suffered by any country in economic history.

Since Lehman Brothers went bankrupt, Italy's GDP fell by 4.4% in the six months between the first quarter of 2009 and the third quarter of 2008. This is worse than the EU-27 and Eurozone by only a few tenths of a percentage point. In turn, the Europe-wide performance was about one percentage point worse than US growth over the same period of time. Germany's GDP fell by 5.8% over the same period. Germany's economy is largely dependent upon locomotive exports. Being the largest exporter in the world has its pros and its cons, and the cons manifest themselves vigorously during a

⁴ Authors are 'Finance Forum' members at T. A. Pai Management Institute, Manipal 576104, India.

⁵ www.sedlabanki.is, www.bis.org/

global recession. Italy is also faring much less worse than most countries in Eastern Europe, whose good economic health is tightly intertwined with Germany and Russia and has been seriously hit by the crisis.

Is Protectionism Better?

Learning from the Great Depression of 1930

US increased the trade barriers in 1930s by passing Smoot-Hawley Act. This Act raised U.S. tariffs on over 20,000 products to an average level of 60 percent. After the U.S. passed the bill, other countries retaliated by raising their barriers to U.S. exports. World trade flows incurred a severe 66 percent drop between 1929 and 1934. This huge drop in trade was what made the Depression great, prolonging and deepening what had been a global recession. Taking a cue from the past, it is far better to keep markets open and increase world demand than to divert demand in national markets to domestic producers by raising trade barriers during a global recession.

View Point of well known Economists

All mainstream economists support free trade. Trade theory, under the principle of comparative advantage, shows that the gains from free trade outweigh any losses as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage. Economists, including Nobel Prize winners like Milton Friedman and Paul Krugman, believe that free trade helps third world workers, even though they are not subject to the stringent health and labour standards of developed countries. This is because "the growth of manufacturing and of the myriad of other jobs that the new export sector creates has a ripple effect throughout the economy" that creates competition among producers, lifting wages and living conditions.

Current Practices

Major economies in the current crisis have used protectionism policies in some or the other way. In the present financial crisis the controversial "Buy American" provision in the 787-billion-U.S. dollar economic stimulus packages has added fuel to the fiery protectionism debate and has the power to hurt Americans and the world alike. Under the "buy American" provision, all public work projects funded under the recently passed stimulus will use only American steel, iron, and manufactured goods. Also recently restrictions were placed on imports of textile and apparel products. Unlike most products, until a few years ago textiles and apparel were explicitly exempted from the decades of trade liberalization that took place under the General Agreement on Tariffs and Trade (GATT).

China had a provision in its stimulus bills instructing "governments of different levels to give priority to home-grown light-industry products". The mere public introduction of the clause reportedly has been enough to get provincial authorities to favour local over foreign suppliers in the procurement of a broad range of products.

Renault and Peugeot-Citroen were offered \$3.9 billion in terms of preferential loans by the French govt in February 2009. There was a condition in-built into the stimulus provided; the two automakers were required to source from French suppliers and to close factories in other countries to ensure that car factories located in France keep operating.

Current position of WTO⁶

WTO rules today serve to keep a lid on trade barriers of its 153 members through an elaborate set of mutual obligations and dispute settlement procedures. The fact that countries violating WTO obligations can face WTO-sanctioned retaliation helps constrain outbreaks of unilateral actions that could be mutually harmful. However there are lot of loop holes in the rules of WTO, which include increases in applied tariffs to bound rates, and imposition of countervailing and antidumping duties, so-called 'defensive' trade measures. Protection for limited periods of time and under prescribed conditions is built into the rules of the WTO as a political safety valve, and recognition of the human and social costs that are associated with the often wrenching adjustments that accompany increased trade competition.

Possible Steps to Prevent Adverse Effects of Protectionism

- Macroeconomic initiatives are the best way to fight this crisis, not protectionism: National leaders should utilise macroeconomic and financial policy instruments as well as social safety nets to address problems like recession, unemployment, and credit crunches.
- APEC and G20 leader's words should be translated into deeds by agreeing to a framework that will allow completion of the Doha Round.
- World leaders should establish a surveillance mechanism to track any new protection, whether it is WTO consistent or not. Knowing that trading partners will learn almost immediately about restrictive measures may cause governments to think twice.
- Avoiding green protectionism: Countries under the pretext of green protectionism could use measure for narrow protectionist ends under the guise of addressing legitimate environmental goals. The current rules and institutional arrangements of the WTO do not have the capacity to adequately adjudicate on this key distinction between legitimate interventions and green protectionism.

Conclusion

Globalization is the key to overcome the present economic crisis. In the past we have seen that countries adopted protectionist measure which only further lead to extended crisis. Hence it is important that WTO takes appropriate steps towards the protectionist measure various developed and developing countries are taking. Also world leaders need to come together in order to fight the current economic crisis.

⁶ www.wto.org/

About TAPMI

The T. A. Pai Management Institute (TAPMI) located in the international university town of Manipal (Karnataka), is among the leading management institutes in India, and is reputed for its academic rigor and faculty-student interaction. Founded by the visionary, Late Shri T. A. Pai, TAPMI's mission is to provide much needed impetus to the task of building professional management capability in the country. In the process, it has also played a role in strengthening the existing educational and health infrastructure of Manipal.

In early 2009, its 25th year running, TAPMI took a landmark step in its history by shifting its operations to a new scenic 42-acre residential campus in Manipal. Since its founding in 1984, TAPMI received recognition and respect amongst the well-known industrial houses and academic institutions in India for the quality of its education.

TAPMI has the unique distinction of launching India's first Post Graduate Programme for e-Governance in April 2009 in association with NISG, Hyderabad supported by Department of Information Technology, Government of India, New Delhi.



New Courses being introduced by TAPMI in 2010*

- PGDM (Health Care Management)
- PGDM (Banking and Financial Services)
- PGDM (International Business)
- Fast Track Programmes
- Certificate Programmes
- Advanced Certificate Programmes

TAPMI is also engaged in:

- Executive Education Programmes (EEP)
- Faculty Development Programmes
- Programmes for SMEs
- Research, Training and Consultancy

**subject to approval of AICTE*

Research & Promotions Committee

Faculty Team

Prof. Pratap Chandra Biswal

Prof. Saji K Mathew

Prof. Madhuchhanda Das Aundhe

Prof. Sasidhar B.

Email ID: rpc@tapmi.edu.in

Student Team

Arunabha Biswas

Manish Mahnot

Rahul Garg

Rakshit Chaudhary

Saikat Mallik

Email ID: researchteam@tapmi.edu.in



T. A. PAI MANAGEMENT INSTITUTE

P. B. No. 9, 80 Badagabettu, Manipal - 576 104, Karnataka, India

Phone: 91 820 2701000 Fax: 91 820 2570699

Website: www.tapmi.edu.in