

Addressing Industrialisation through Industrial Policy Reforms in Kerala

Dr. Sindhu P K

Assistant Professor, MESCE, Kuttippuram, Kerala, India

Abstract: *The importance of industrialization for a balanced development of the state has been the objective of the government of Kerala as well reflected in the policy measures taken in five year plans and industrial policy statements. Policy measures have been framed in order to promote and also to revive industries in the state according to the need of the time. Some policy changes like that of industrial policy reforms of 1991 were significant in bringing about structural changes in the industrial sector. The industrial base has been widened substantially and so is the range of industrial products. Aspects like fostering entrepreneurs, development of technological capabilities and skills, digitalization maintaining ecological balance are also streamlined as conducive for rapid industrialization. The industrial policy reforms of the state of Kerala have been modified and updated to incorporate these changes to bring forth much required impetus to the industries and develop a favourable industrial climate in the state. Ease of doing business is one of the important criteria for examining the investment climate in the economy nowadays. As per the assessment of Department of Policy and Promotion, the state of Kerala was included in the category jump start needed with a rank of 21 among the states in 2019. The state Government have been consistently trying to improve industrial climate in the state and the industrial policy reforms have been modified keeping in view the different parameters matching national and international standards. Consequently, the state has improved its position to 15th rank in 2020 (SBRAP, 2020) based on implementation and feedback scores (KSIDC, 2022). This paper intends to throw light on the journey of the state of Kerala through the industrial policy reforms, implementation of which helped the state to improve its position after long years of policy making.*

Keywords: Kerala, industrial policy reforms, industrial growth

1. Introduction

Industrialisation has a major role to play in the economic development of the underdeveloped countries. Economic development is known to be synonymous with industrial development, particularly the development of modern manufacturing sector. It is believed that economic development is possible only through industrial development. So much so, often the developed countries are alternatively referred to as 'industrialised countries'. The importance of industries sector and its growth in an economy is obvious from this (P. P. Pillai, 1994). The gap in the per capita income between the developed and underdeveloped countries is largely reflected in the disparity in the structure of their economies; the former are largely industrial economies, while in the latter, production is confined predominantly to agriculture. Undoubtedly, some countries have achieved relatively high per capita incomes by virtue of their fortunate natural resource endowments. But these countries are rather a special case. So most of the underdeveloped countries focused on higher industrial development as a path to economic development and the case of India is no different.

In the industrial map of Indian subcontinent, the state of Kerala was figured in the bottom line for several years after its formation in 1956. Industrial development being a major accelerator of economic growth, the Government of Kerala has been continuously making efforts to improve the industrial status of the state. This has been reflected in the industrial policy reforms framed from time to time.

Industrial Policies of Kerala

It is universally recognized that in order to overcome the rigidities in the underdeveloped countries, the state has a positive role to play. "Breaking social chasms and creating a

psychological, ideological, social and political situation propitious to economic development becomes the paramount duty of the state in such countries." (Myrdal, 1972) Hence the actions of the state must cover different spheres and one among them is definitely industrial development. .

The state government of Kerala followed the industrial policies of Indian Government immediately after its formation in 1956. The importance of regional industrial policy based on the existing structural and regional factors of the state was appreciated and this resulted in the first industrial policy of Kerala in 1960. After reviewing the economic and social status of the society, the policy was framed in such a way as to provide fillip for the industrialization, utilizing the resources available in the State. National Council of Applied Economic Research was entrusted to conduct an economic survey to bring about details of the resources available in the state. The industrial activities in the state broadly be classified under traditional industries, small scale industries, khadi and village industries, large and medium private and public sector units. This policy initiative by the government tried to address issues like availability of land, power, finance, marketing facilities and technical support required for the development of industries in the state.

Though measures were intended to improve the industrial situation in the state, it was seen that the percentage share of industrial income to state income decreased from 16.17 percent in 1950 - 61 to 14.47 percent in 1965 - 66 (Economic Review, 1966). About 8.47 lakhs of people, that is 83.1 percent of total workforce under industries, were employed in small enterprises reflected the dominance of small scale industries in Kerala. The capital employed per worker in these industries was only Rs.1500 whereas it was Rs.5600 at all India level. This Highlighted the low capital

Volume 12 Issue 2, February 2023

www.ijsr.net

Licensed Under Creative Commons Attribution CC BY

intensity of small enterprises. (economic review, 1962) In this background, the industrial policy statement in 1967 urged central government for following preferential licensing procedure for establishing large scale industries in the state, allowance of foreign currency to purchase modern machinery for the industries and central investment in the state as to promote related industries also. Kerala State Industrial Development Corporation, Kerala State Small Industries Development Corporation and Kerala State Financial Corporation were given the responsibility to provide financial support to large, medium and small scale industries respectively. Industrial relation in the state had a stigma attached to it adversely affecting the investment climate. A Conciliation and Arbitration Board was formed to look into the issue and promote a better investment climate.

The concerted efforts of the successive Governments and successful implementation of policy measures had brought about noticeable increase in the number of large, medium and small scale industries in the state. There was a marginal increase in the central investment also. The index of industrial production marked an annual growth rate of 3.9 percent in the time period 1970 - 71 to 1975 - 76 and 9.1 percent growth rate in 1975 - 76 to 1980 - 81. As on 31/3/1982, there were 108 mini industrial estates and nine development plots in the state. Though this showed a better picture, a major setback to the industrial scenario of the state was the increasing number of industrial units growing sick. (Economic Review, 1982) The major concerns that the industrial policy of 1983 addressed was the rehabilitation of sick units especially in the public sector. State Public Enterprises Bureau was set up for the purpose. A common Policy of Prices and Wages were framed emphasizing the importance of production and the productivity of labourers. Kerala Industrial Development Council was established to monitor the implementation of policy measures framed through industrial Policy. Along with these specific measures, this policy continued to support large medium, small and traditional industries.

There was considerable improvement in the industrial climate of the state in 1980's bringing down the industrial disputes to 67 in 1988 and then to 38 in 1990. Mandays lost due to industrial disputes came down from 23.11 lakh in 1986 to 15.38lakh in 1988 and further to 3.90lakh in 1990. Annual index of industrial production had reached 200.6 in 1985 - 86, but declined to 175.19 in 1987 - 88. A major problem that had serious setback on Kerala economy was acute power shortage which mainly affected the industrial sector of Kerala. (Economic review, 1991) The New Industrial Policy of Central Government of India was implemented in the state also in 1991. There had been increase in the number of small scale industries, joint stock companies in 1991 - 92 and the index of industrial production increased from 190.45 in 1990 - 91 to 284.05 in 1996 - 97. After the implementation of liberalization policy, the state government had taken special care in modifying the objectives of the industrial policy according to the needs of the state.

The industrial policy implemented in 1998 gave importance for three major issues ailing the industrial sector of Kerala. All tiny, small, medium or large units in sectors like

information technology, agro based industries, readymade garments, ayurvedic medicines, mining, marine products, light engineering, biotechnology and rubber based industries were given the status of thrust sector industries. Specialised industrial parks were designed to meet the increasing needs of modern industries, especially in the industrially backward districts of Wayanad and Idukki. Schemes like Investment subsidy, margin money loan scheme, tax and duty concessions for all new industrial units were expected to bring in a new era of industrialization in the state. Extensive marketing network, export promotion, participation in international fairs were given due importance in the new policy. A new scheme called koottukudumbhasamrambham was introduced to ensure the participation of women entrepreneurs. A Policy Progress Evaluation and Review Team was formed to review the implementation of the policy and to provide necessary feedback to the government so that appropriate interventions can be made by the government.

In the backdrop of achievements of Kerala in physical quality of life and social infrastructure, particularly in health and education system, a new industrial policy was framed in 2001 to bring forth a revolutionary change in the industrial front also. All the previous industrial policies had addressed the issues ailing the industrial sector of Kerala, so this policy meant to bring in a fresh approach altogether. This policy aimed at intensive programmes based on digital technology. Special emphasis was given for development of infrastructure including new industrial estates, industrial corridors, industrial parks, and special economic zones were created within these areas. Industrial Development Zones were planned at Thiruvananthapuram, Kozhikode and Kochi. Unlike previous industrial policies, service sector industries like education, tourism, health care especially ayurvedic and other traditional forms of treatment were given due consideration. Single window clearance act was implemented for all new industrial projects. It was planned to conduct Global Investors Meet 2002 to attract national and international businessmen to invest in Kerala. The Global Investors Meet attracted an investment offer of Rs.26000 crores, despite economic slowdown. Memorandum of Understanding were entered into for 96 projects, totaling an investment of Rs.11159.65 crores. (Economic Review, 2003) Kerala could attract an amount of Rs.1217 crores in 184 projects for the time period 1999 - 2005, which constituted only 1.26 percent of total FDI approved in India. While our neighbouring states of Tamilnadu and Karnataka fetched third and fourth position in the FDI list, Kerala could get only twelfth rank. The average industrial growth rate for the period from 1999 - 2000 to 2006 - 07 was 2.9 percent at constant prices.

The industrial policy of 2007 gave special thrust on rapid industrialization of the state without compromising the ecological and environmental issues. The Micro Small and Medium Enterprises Act enacted in 2006 had broadly classified industries on the basis of limit of investment and changed the concept of industries to enterprises. District Industries Centres were entrusted with responsibility of developing and supporting Micro, Small and Medium enterprises. Under cluster development programme, industrial clusters were designed to enable small

entrepreneurs the economies of production. Orientation programmes and quality improvement programmes were meant to bring in confidence among the entrepreneurs in the state. According to the statistics published by the Department of Economics and Statistics, the growth rate for the period from 2005 - 06 to 2010 - 11 averaged 7.9 percent at constant prices and this could be viewed as a positive impact of all the policy measures planned and implemented over the years. Hence, Industrial Policy of 2011 continued all the major steps taken in the previous policy and a specific strategy of investment promotion towards the Rest of India, Middle East, South East Asia and Srilanka were planned. Moreover, Transforming Kerala from a wage earning society to an entrepreneurial society was taken up as a major target and challenge as well.

The previous industrial policies of the state had taken extra efforts to bring the state to the forefront in the case of industrial growth. The importance given for MSME enterprises especially in the service sector culminated in a growth rate of 8.24 percent in 2012 - 13 and this was supposed to be the highest among southern states and much above the national average of 5 percent.

Since infrastructural development provides the base for industrial development, the state government gave utmost importance for its development in the industrial policy of 2015 also. The important measures were:

Government proposed to facilitate development of Industrial Development Zones (IDZ), establish a knowledge City in the Techno city, Thiruvananthapuram, encourage setting up industrial units in dedicated industrial parks. This policy statement also facilitate industrial clusters with common infrastructure like common Effluent Treatment Plants for relocating relatively polluting industries and providing financial assistance to the extent of 25% of capital investment in Effluent Treatment Plants, subject to a maximum of Rs.1 Crore. Promoting eco friendly enterprises was the main objective and introduced a ‘Green Financing scheme’ in the State, with a cost of Rs.100 Crore.

As a part of encouraging entrepreneurship among the youth, September 12th was declared as State Entrepreneurship day. All universities in Kerala were to give 5% grace marks and 20% attendance to student startups which have at least one women as a cofounder. The Entrepreneurship Development Clubs already started in selected colleges were extended to all higher education institutions in the state. In addition, Kerala Academy for Skill Excellence (KASE) and Additional Skills Acquisition Program (ASAP) had been initiated for the enhancement of skills.

The importance of MSME in the industrial growth of the state has been well recognized. MSME Equity participation fund for encouraging startups were created in Kerala State Industrial Development Corporation and Kerala Financial Corporation. Exemption for payment of EMD and security deposit and price preference and 30% investment subsidy for women entrepreneurs.

Among the existing industrial sectors, Government identified Rubber based Industries, Agro based business

including food processing, Readymade Garments, Ayurvedic medicines, Marine products, Light Engineering, Bio and Nano Technology Furniture manufacturing, Electrical and Electronic products and 100% Export Oriented Units as thrust sectors with a higher rate of investment subsidy.

Furniture industry has been growing steadily in the State during the last two decades and complete mechanisation were encouraged to overcome the deficiencies of skilled manpower and to produce larger volumes to reap the economies of scale in this sector. At constant prices, the industrial sector registered a growth rate of 2.2 percent in 2016 - 17 as against 12 percent in 2015 - 16. This actually called for an intensive policy reforms in the state. The industrial policy reforms of 2018 can be considered as a continuation of the measures taken through industrial policy reforms of 2015. It gave importance for infrastructural development by facilitating more industrial parks and estates, modifying and strengthening the facilities available in the existing parks and estates. Another major initiative was in the case of acquisition of land for promoting industrial activities in the state. This policy also supported the idea of private estates. The major thrust area continued to be agro and food processing, garments and textiles, electronics, bio and nano technology, wood processing, mining (public sector only), Ayurveda, rubber, footwear industry, gem and jewellery. As the MSME sector forms a major part of the industrial sector, measures like Entrepreneur Support Scheme (ESS), loans at affordable interest rate from KFC were included. The measures also included ecommerce portal for handicraft industries, price preferences, timely payment to small enterprises, vendor registration scheme, industrial cluster development. It gave importance for traditional industries like handloom, Khadi, Handicrafts, Bamboo, cashew, coir public sector undertaking. Seed fund assistance to start ups by KSIDC, Women Entrepreneur Mission (WE mission) to spread the spirit of entrepreneurship. These were the measures take to foster industrial development in the state.

2. Conclusion

The importance of industrialisation for a balanced development of the state has been the objective of the government as well reflected in the policy measures taken in five year plans and industrial policy statement. Policy measures have been framed in order to promote and also to revive industries in the state according to need of the time. Some policy changes like that of industrial policy reforms of 1991 were significant in bringing about structural changes in the industrial sector. The industrial base has been widened substantially and so is the range of industrial products. Aspects like fostering entrepreneurship, development of technological capabilities and skills, digitalisation, maintaining ecological balance are also streamlined as conducive for rapid industrialisation.

The leading role assumed by the Government of Kerala in the industrialization process helped to widen the industrial base of the state. With the initiation of the reforms of 1991, private sector also gained much importance. This was supposed to exploit the potential to the maximum. The

industrial climate of the state was later disturbed due to factors like political interference, trade unionism and high wage rate ((K. K. Subramanian, M. M. Thampy, B. A. Prakash). These negative factors that affected the industrial climate had to be addressed first to create a favourable climate for industrialisation. Though the importance of regional industrial policy was understood and framed before 1991, its regularity was ensured only after 1991. Industrial history indicates that small scale industries have been flourishing in the state even before its formation. The industrial policy reforms initially aimed at addressing issues like availability of land, power, finance, marketing facilities and technical support required for the development of the industries in the state.

The index of industrial production an indicator of industrial performance marked a growth rate of 3.9percent in the time period 1970 - 71 to 1975 - 76 and it had increased to 9.1 percent growth rate in 1975 - 76 to 1980 - 81. Unfortunately, the increasing number of units falling sick especially public sector units was a major setback to the state. The industrial policy reforms before 1991 envisaged a policy of industrial licensing, price control and protection and mainly aimed at increasing production and productivity, generating employment opportunities and regional balanced industrial development. These measures which were meant to promote industrial development led to lack of competition, lack of technological innovation and resultant technological gap adversely affecting the industrial development of the state. This led to reviewing of the policy measures and saga of liberalization.

In short, Entry barriers in the economy has been reduced since 1991 through de - licensing, deregulation, reduction in the role of public enterprises, privatization, liberal FDI norms and reduction in trade barriers. Over the years after the implementation of policy measures suitable for the economy, the industrial sector has been growing though not consistently. In the World bank report of Ease of Doing Business Report (2019), Kerala was included in the category of 'Jump start needed' as per the assessment of Department of Policy and Promotion. This surely indicated the need for review and appraisal of the ongoing and earlier industrial policies. Though these policies have been successful in reducing the impact of unfavourable factors curbing the industrial development of the state, it is imperative that reformative measures should be in compliance with the standard set by institutions existing for improving the industrial development of the economies. The recent upgradation in its rank to 15th among the 28 states in India, definitely evokes a sense of confidence during this pandemic period, though should not be overwhelmed to stall the policy measures. The setback that Covid 19 had on the various sectors of the world is a known fact and Kerala is no exception. Though functioning of the sectors were severely affected by the lockdowns and medical emergency during this pandemic period, the support extended by the Government through various policy measures seems to be effective and instrumental in being a pillar of strength for all the ailing sectors.

References

- [1] Economic Review (various years), Kerala State Planning Board, Government of Kerala
- [2] Industrial Policy Statements (various years), Government of Kerala
- [3] Myrdal, G. (1972). *Asian drama; an inquiry into the poverty of nations* (Vol.1). Pantheon.
- [4] Pillai, P. P. (1994). Kerala Economy. *Institute of Planning and Applied Economic Research, John Matthai Foundation, Thrissur.*
- [5] Prakash, B. A. (1999). *Kerala's economic development: issues and problems.* Sage Publications Pvt. Ltd.
- [6] Prakash, B. A. (Ed.). (1994). *Kerala's economy: Performance, problems, prospects.* SAGE Publications Pvt. Limited.
- [7] Rajan K. R. (1987) KeralathileVyvasayangal, (part - I and part - 2), Thiruvananthapuram.
- [8] Subrahmanian, K. K., &Azeez, E. A. (2000). Industrial growth in Kerala: Trends and explanations.
- [9] Sindhu P K (2020), Bank Financing and Industrial Performance of Kerala, Ph. D. Thesis, University of Calicut.
- [10] Thampy, M. M. (1990). Wage - cost and Kerala's industrial stagnation: Study of organised small - scale sector. *Economic and Political Weekly*, 2077 - 2082.