

1. State Economy: The Basic Features

INTRODUCTION

Kerala's is a story of spectacular success in the sphere of social development, marred by an indolent industrial growth that has clamped the State to the middle rungs of the inter-State income-ladder. In a comparison of per capita Net State Domestic Product (NSDP) at 1980–81 prices in 1994–95, Kerala ranked ninth among the general States, below its two neighbours, viz., Tamil Nadu and Karnataka (charts 1 and 2). Its per capita income was also about 11 percent lower than the national per capita income.

Proximity to the sea with a long coastline, coconut palms and plantation crops keep the Kerala landscape bathed in a golden-green hue which is but a partial consolation for the cost-disadvantages inflicted upon the State economy in being distant from the interior markets and sources of raw materials in the country. Capital to capital, Thiruvananthapuram, located at latitude 8.29N and longitude 76.59E, at a distance of 2780 kms., is the farthest from Delhi among the rail-connected State capitals.

The penchant of the average Keralite to migrate to foreign countries and to the rest of India constitutes a critical feature of the State economy. A 1992–93 survey puts the number of migrants at 11.92 lakh persons (6.41 lakh to the Gulf alone).¹ Their remittances blow the expenditure base of the State economy far above its domestic output. However, the economy has also been rendered vulnerable to external shocks emanating from exchange-rate volatility and periodic bouts of return of migrants, thus exacerbating its susceptibility to the fluctuations of international prices of its plantation-dominated agricultural outputs (discussed later in the *chapter*).

The edges of Kerala (especially Nagercoil and Coimbatore) are dotted with industrial units except that they are on its neighbours' side of the border, thus signifying critical features of the regional milieu. In particular, relatively costlier labour in Kerala with a tendency to quickly unionise and high land prices largely account for this phenomenon. Kerala does not have vast rural hinterlands as in many other Indian States. Rather, it has contiguous urban areas with small rural peripheries. Scarce and undulated land and the flow of remittances towards real estate, have driven land prices to exorbitant heights.

Incidence of unemployment in Kerala is high particularly among the educated youth. The number of job seekers on the live registers of the employment exchanges continues to be very large with the latest figure being 35.19 lakh as on 30.9.1997, registering an annual increase of 7.1 percent over 1996. About 76 percent of them had a qualification of Senior School Level Certificate (SSLC) or above [GoK, SPB, 1997(a)].

ECONOMIC GROWTH: AGGREGATE AND SECTORAL

A large but, in relative terms, declining agriculture, stagnant industry and a growing services sector define the contours of the economy. The share of agriculture, as a percentage of GSDP, has fallen by about 4 percentage points between the early eighties and the early nineties. It is at present 30 percent of the GSDP. The share of services has correspondingly increased by a margin of 4 percent, with industries remaining at around 25 percent of GSDP during the entire period from 1980–81 to 1995–96.

Table 1.1: Sectoral Shares in GSDP and Growth Rates

	(GSDP at 1980-81 prices)								
	1980-81 to 1984-85			1985-86 to 1989-90			1990-91 to 1994-95		
	Kerala	MIS*	India	Kerala	MIS*	India	Kerala	MIS*	India
Share (percent of GSDP)									
Agriculture	34.48	36.43	38.80	31.91	32.49	34.40	30.92	30.71	33.80
Industry	25.17	25.69	25.00	24.05	25.81	26.80	25.05	27.99	27.60
Services	40.35	37.89	36.10	44.04	41.70	38.80	44.04	41.92	38.70
Growth rates (percent per annum)									
Agriculture	-1.40	2.90	4.00	3.64	4.86	3.70	4.49	5.20	3.30
Industry	0.30	4.30	6.80	6.19	6.75	7.50	8.42	4.45	5.30
Services	3.92	4.96	5.70	5.95	7.17	7.40	6.32	5.76	6.10
GSDP	1.14	3.96	5.30	5.26	6.35	6.00	6.26	5.14	4.90

Source (Basic Data): CSO, relevant years(a).

Note: * MIS refers to the middle income States. West Bengal is not included here for lack of data.

An improvement in the overall growth performance is visible in the nineties, with the average growth of GSDP improving from a level 1.14 percent per annum in the early eighties on an average to 5.26 percent in the latter half of the eighties, further improving to 6.26 percent in the nineties (upto 1994–95). While the middle income States were doing better than Kerala in the eighties, for some years in the early nineties, Kerala successfully overtook them. However, annual growth rates of real GSDP indicate that after an excellent performance in 1992–93 and 1993–94, the growth rate has fallen to around 5.3 percent per annum. The extraordinary growth of 1992–93 and 1993–94 largely reflects the buoyant impact of the massive depreciation of the rupee. This is corroborated by the fact that growth in construction in 1993–94 was 44 percent – an activity which claims a large portion of the remittances – being linked to the increased demand for real estate. Industry and services have evinced, since then, lower growth rates of around 4 to 5 percent which account for the lower trajectory of GSDP growth since 1994–95, despite agriculture registering a healthier annual growth rate at just below 7 percent (chart 3).

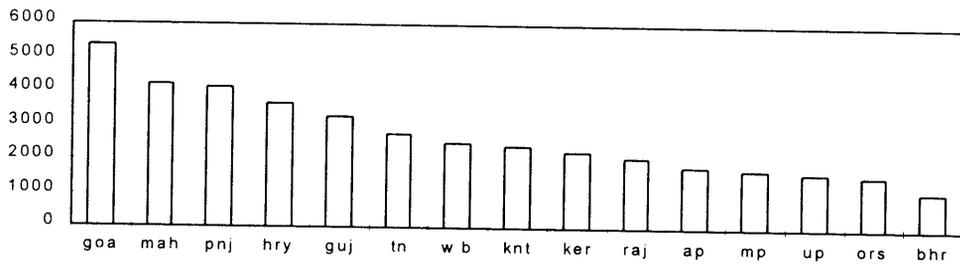


Chart 1 : Per Capita NSDP: General States

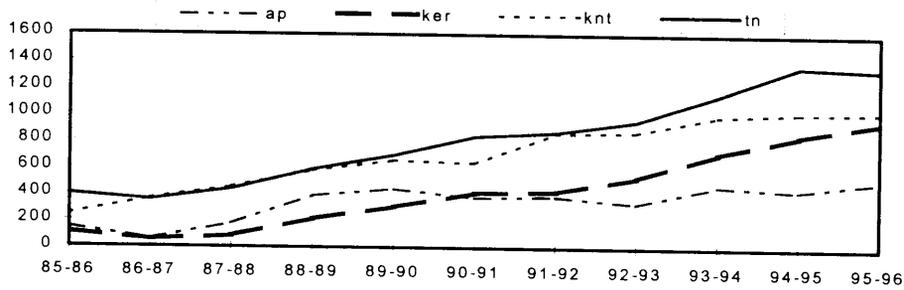


Chart 2 : Growth of Per Capita NSDP: Kerala & Its Neighbours

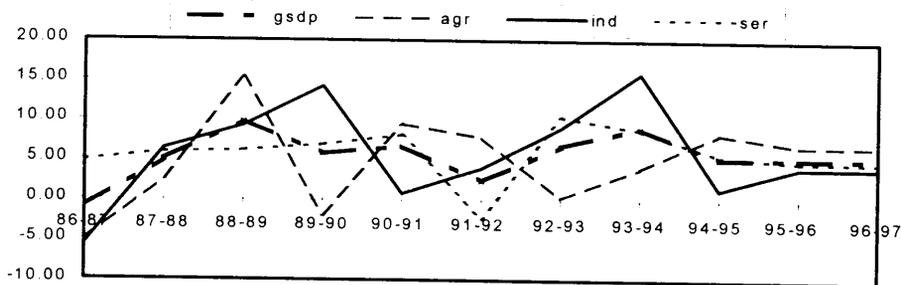


Chart 3 : Annual Growth Rates of GSDP & Its Sectors

Table 1.2: Annual Growth Rates: Aggregate and Sectoral

	(Percent)							
	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96 (P)	1996-97 (Q)
Gross state domestic product	4.78	6.67	2.38	6.77	9.08	5.28	5.31	5.29
Agriculture and allied activities	4.22	9.43	7.81	0.32	4.02	8.36	6.87	6.88
Industry	5.85	0.82	4.00	9.05	15.90	1.40	4.14	4.14
Services	4.62	8.14	-2.26	10.42	8.78	5.57	4.92	4.84

Source (Basic Data): CSO, relevant year(s).

Note: P denotes Provisional and Q denotes Quick estimates.

In the agricultural sector, important crops relate to rice, coconut, pepper, cashew, rubber, coffee, tea and cardamom. Sub-sectors doing well in recent times are rubber, coconut and milk. It is notable that growth in agriculture has been based largely on improvement in productivity rather than augmentation of area. Productivity, as indicated by output (kg.) per hectare, has gone up in the case of rice from 1959 to 2023 between 1991-92 to 1996-97. Throughout this period, the productivity of rice in Kerala has remained higher than the all-India average. During the same period, the per hectare output (kg.) for some of the other crops has also gone up as indicated below (detailed in table A1.3): pulses (706 to 710), sugarcane (6866 to 9221), pepper (282 to 312), ginger (3594 to 3778) and turmeric (2409 to 2239).

A salient feature of Kerala's agricultural economy is the predominance of commercial crops such as coconut, arecanut, cashewnut, pepper, rubber, coffee, tea and cardamom. The commercial crop economy is deeply integrated with the rural life. At present, they account for 61.7 percent of the cropped area, employing nearly the same proportion of cultivators. Some traditional industries based on the processing of these crops like coir industry and cashewnut offer further employment opportunities. Its contribution to India's foreign exchange was Rs. 2069.13 crore in 1996-97. For the last three decades Kerala has been witnessing a shift in the cropping pattern from seasonal and annual food crops to perennial commercial crops. The increase in the cropped area in the case of crops like rubber and coconut has been largely at the expense of food crops like rice and tapioca.

An analysis of price movements of individual crops exhibits considerable volatility (see table 1.3). In the case of coconut, price fluctuations indicated as percentage change over the average price of the previous year, show the widest amplitude. In the latter part of the nineties somewhat favourable prices for arecanut, pepper and cashewnut were obtained. Rubber prices registered an upward trend in the early 1990s till it reached its peak in 1995-96. However, since mid-1996, prices have collapsed and as on August 1998, the price is half of the peak price in 1995-96. Tea as well as cardamom prices have also shown considerable fluctuation in the 1990s.

Table 1.3: Fluctuations in Prices of Commercial Crops (Percentage Change Over Previous Year)

Year	Coconut (’000 Nuts)	Arecanuts (’000 Nuts)	Cashewnut (Quintal)	Pepper (Quintal)	Rubber (Quintal)	Tea (Kilogram)	Cardamom (Kilogram)
1985-86	-78.1	-11.4	20.4	32.6	4.4	-15.1	-77.8
1986-87	39.1	-6.3	21.4	17.1	-4.3	12.8	10.2
1987-88	12.8	-1.5	-23.1	-18.4	7.3	-8.0	10.0
1988-89	-5.4	15.3	5.2	-12.4	1.3	38.5	-1.7
1989-90	-28.8	14.2	1.9	-13.1	14.8	14.8	50.2
1990-91	32.3	46.0	14.7	-7.7	-0.1	-12.8	-2.1
1991-92	23.4	16.3	32.3	-9.3	0.6	-1.5	-9.9
1992-93	6.4	4.4	-1.9	-12.7	16.0	20.3	37.4
1993-94	-29.1	1.9	6.3	33.1	0.7	-27.7	-13.8
1994-95	-5.8	8.4	9.4	41.5	32.4	17.8	-35.0
1995-96	7.0	14.6	12.8	8.6	26.9	6.6	-22.8
1996-97	31.0	0.0	1.1	16.6	-6.2		
August 1998					-60.4		

Sources: GoK, DoES, relevant years; GoK, SPB, relevant years(a); and The Association of Planters of Kerala, 1997.

Notes: 1. Figures for tea refer to calendar year starting from 1985–1996. 2. Rubber prices are average market prices in Kottayam market for two categories of rubber. 3. Rubber prices for August 1998 have been worked out on the basis of daily prices reported in newspapers.

The general index of industrial production (base 1980–81) stood at 255.49 in 1995–96. This implies a growth rate of 6.45 percent per annum in industrial production. Industry groups relating to manufacture of machinery and equipment, metal products and paper and paper products have exhibited relatively better performance over the years. Relative weights in the base year indicate that electricity generation, transmission and distribution had a weight of 21.93 percent in 1980–81 (highest among industry groups), followed by basic chemical and chemical products (not including petroleum), rubber, plastic and petroleum products, food products, and cotton textiles. All these industry groups, important in terms of their relative weights, have shown very tardy long run growth.

The interface between the government and industry is handled by various promotional institutions (like Kerala State Industrial Development Corporation (KSIDC), Kerala Finance Corporation (KFC), Electronics Technology Parks (ETPs) and Kerala Industrial Infrastructure Development Corporation (KINFRA) and schemes, in addition to the forty-four State level public sector manufacturing units. Also, there are nineteen central sector industrial undertakings. There are several promotional programmes for the Small Scale Industries (SSI) sector. In the cooperative sector, HANTEX and HANDVEEV are important promotional agencies.

Among the traditional industries — coir, cashew, handloom, handicrafts and sericulture — are important areas of activity. These are highly employment-intensive industries, especially conducive to women employment. Kerala has a virtual monopoly

in the country in the production of white fibre coir. It also has a high share in the brown fibre coir industry. There has been a steady increase in the export of coir and coir products in the past, although growth in export demand is now levelling out. Cashew is another important export-oriented traditional industrial activity. In recent years, its export earnings have shown a sharp decline like other cash crops. Non-availability of raw materials has been cited as the main reason for this.

The emerging scenario in the field of information technology and its vast potential has been recognised and accordingly steps have been taken to formulate an information technology policy for the State for which a core committee has been constituted. Some major projects have been taken up by Kerala Industrial Infrastructure Development Corporation (KIIDC).

The credit-deposit ratio is rather low in Kerala, and Kerala's share of assistance extended by the country-level financial institutions is also one of the lowest among States. The share of Kerala in financial assistance disbursed by financial institutions during 1995–96 was 1.02, a decline from 1.05 in 1994–95. The credit deposit ratio in 1996 (June) was 43.7 as compared to the all-India average of 59.2.

SOCIAL DEVELOPMENT

Kerala tops Indian States in male as well as female literacy. Health-related indices like Infant Mortality Rate (IMR) are equally impressive (table A1.2). Human Development Indices (HDI) of 17 Indian States, computed on the basis of the UNDP methodology for the year 1987, reveal that Kerala has the highest HDI (Siva Kumar, 1991). The achievements of the State in the sphere of social development have attracted world wide attention.

The poverty ratio in Kerala, at 25.43 (1993–94), is ten percentage points below the Indian average. An 1995 Integrated Rural Development Programme (IRDP) survey update counts 20.73 lakh families below the poverty line (table A1.4). Nearly 74 percent of the State population is rural. Dependent on wage employment and poor assets, they have a weak income base. Access to basic minimum services is limited for the rural poor. There is considerable inter-regional variation in the level of development across districts. The district-wise per capita income at 1980–81 prices range from Rs. 1369 for Mallapuram to Rs. 3617 for Ernakulum (table A1.1). The latter is substantially higher than that for Thiruvananthapuram, where the per capita income at 1980–81 prices is Rs. 2369.

Kerala is unique in having implemented, with government assistance, three major pension schemes for agricultural workers, destitutes and handicapped. Statutory boards have been constituted by the Government of Kerala to look after social security schemes for head-load workers and workers in coir, cashew, handloom, *khadi*, transport and *abkari* industries.

Table 1.4: Social and Infrastructure Development Indicators (Percent)

	Kerala		India	
	1981	1991	1981	1991
Literacy (percent)	70.42	89.81	36.03	52.21
Male literacy	87.74	93.62	46.62	64.13
Female literacy (percent)	75.65	86.17	24.73	39.19
Crude birth rate (per '000 population)	24.90	17.40	33.80	29.90
Infant mortality rate (per '000 live births)	17.00	17.00	110.00	80.00
Sex ratio (females per '000 males)	1031.00	1036.00	934.00	927.00
Urbanisation	1981	1991	1981	1991
	18.8	26.40	23.30	25.70
Density (persons/sq.km.)	1981	1991	1981	1991
	654.00	748.00	216.00	276.00
Population (growth per decade)	1951-1961	1961-1971	1971-1981	1981-1991
Kerala	24.80	26.30	19.20	14.30
India	21.50	24.80	24.70	23.90
Poverty ratio (population below poverty line)	1987-88	1993-94	1987-88	1993-94
	31.79	25.43	38.86	35.97
Life expectancy (years)	1986-1991		1991-1996	
	Male	Female	Male	Female
	66.23	71.19	67.23	72.37
Index of infrastructure development	1980-81	1984-85	1990-91	1993-94
Kerala (India = 100)	158.10	150.20	157.40	157.10

Source: GoI, 1996; CMIE, 1997; GoI, 1993; GoI, 1997(b); GoK, 1997(a).