Chapter I

INTRODUCTION

The importance of industrialisation in economic development is adequately recognised in literature. In most of the studies relating to Kerala also industrialisation is regarded as the solution for the chronic problems of the state like unemployment, poverty etc. But even after four decades of national and state level planning, Kerala has not made any notable achievements in the realm of industrialisation. All the major indicators of industrialisation point to the existence and continuance of a stagnant industrial sector in Kerala. For instance, the share of the manufacturing sector in Kerala's State Domestic Product was 12.25 per cent in 1960-61, 12.45 per cent in 70-71 and 15.44 per cent in 89-90, remaining below the national average throughout. The rate of increase in industrial production which was 4.04 per cent in the 70s declined to 1.22 per cent in the 80s.

Considering the state on the basis of the level of industrialisation in terms of the share in value-added in factory sector, Kerala ranked only 11th in 1960-61 and 10th in 1970-71 as well as in 1980-81. While Maharashtra and West Bengal accounted for 25 per cent and 11.5 per cent respectively
of the total value added in the factory sector in the country as a whole, the share of Kerala was only 3.3 per cent in 1980-81.4

In terms of employment generation also, Kerala lagged much behind India throughout the period 1960-90. The annual compound growth rate of employment in Kerala was consistently below that of all India. Further the growth rate of employment was below even the growth rate of value-added of the state's industrial sector.5

Analysing the sectoral share of State Domestic Product, it is not difficult to note that it was the service sector that was growing throughout the four decades of planning. By 1981, the share of the tertiary sector in SDP was about 36 per cent.6 By the close of the eighties, this share again increased to more than 40 per cent. At the same time, the share of the agricultural sector has considerably declined from 56 per cent in 1960-61 to 39.9 per cent in 1980-81.7

Further, according to the High Level Committee Report of 1984, the major investor in the large and medium sector industries in Kerala has been the Central Government accounting for about 52 per cent of the total investment. While the private sector's share is 33 per cent, the State Government's is only 12 per cent.8 However, a more gruesome picture that
emerges is associated with the declining trend in the share of central investment in the state. The share of central investment in Kerala declined from 3.24 per cent in 1975 to 1.58 per cent in 1987. The performance of the State Public Sector undertakings has been very disappointing. Out of 93 state sector industries, 61 have shown accumulating losses. The private sector industries, also display the same tendency as those of the state sector undertakings. A number of them has already shown certain unhealthy trends. This should be viewed against the fact that Kerala had the largest number of state-run enterprises among all Indian states during 1981-82.

Disaggregating further, it is seen that the traditional agro-processing industries still dominate the industrial sector of Kerala accounting for the major share of the total employment in the factory sector. These include food products (39 per cent of employment) beverages (7 per cent), textiles (6.66 per cent) etc. The major industries coming under the above-said industrial categories are cashew, coir, tea, beedi, handloom and others. Though, in terms of employment the traditional sector has the major share, in terms of value-added, its performance has been not so encouraging. Chemical industries, rubber, petroleum, electrical machinery etc. are the important industries that rank first in terms of value-added (barring electricity). Yet, the major industries in Kerala are of the
traditional variety and are based on the region's natural resources. The engineering industries with their immense potentialities of generating inter-sectoral linkages are conspicuous by their absence. Thus, Kerala economy is characterised by a lop-sided industrial structure due to the concentration of factory employment in resource-based traditional industries and also due to the absence (or rather relatively small share) of engineering industries.  

The Problem

When the industrial structure of Kerala is examined, it is not difficult to see that the dominant industries are still the traditional primary-processing industries such as coir, cashew, tea, handloom, beedi, fish processing etc. The traditional sector makes use of the region's natural resources, accounts for the major share of industrial employment, uses traditional methods of production and has low productivity, low wages and low investment. On the contrary, the modern industrial sector is characterised by relatively high investment, high wage rate, high productivity, using modern technology and imported raw materials.

The traditional sector has failed to create inter-industry linkages as neither the raw materials nor the finished products of this sector demand the establishment of related
industries. Though a number of traditional industries use the state's own raw materials and manpower, the products are mainly exported to foreign countries. In the case of the modern sector, it mostly relies on imported raw materials and external markets (mostly markets in the rest of India). Even the major sectors of the economy like agriculture, electricity, etc. cater either to foreign markets or markets in the rest of India. Thus most of them have failed to create inter-sectoral linkages and complementary production sectors. Export-orientation has been the characteristic feature of the economy and more particularly that of the industrial sector of Kerala. Thus industrialisation in Kerala, whatever may its magnitude be, and economic development in general have been shaped by factors external to the economy.

The pattern of development that has come to stay in Kerala owes its legacy to British Colonial rule and it clearly conforms to the pattern followed by the then colonies. This pattern of development is generally known as export-oriented or extraverted development. What is peculiar to Kerala is that even when India switched over to a policy of import-substitution after independence, the basic economic structure, especially the industrial structure of Kerala essentially continued to be export-oriented, as during the colonial period.

Export-orientation is a pattern of development evolved
mainly during the colonial period subserving to the interests of the metropolitan centres. It has resulted in the disarticulated development - lack of inter-sectoral linkages - of different sectors of the economy. The preponderance of the tertiary sector compared to the productive sectors is a significant fallout of disarticulation.

It seems that adequate attention has not been focused on the export-oriented development pattern and its determining impact on the evolution of the industrial structure of the state. Thus it may be argued that the fragile industrial structure of Kerala has much to do with its extraverted development path. A further point to note is that this export-orientation is organically linked with the colonial rule and its concomitant socio-economic structures. The perpetuation of the fragile industrial structure of Kerala is also signified by the complex interaction of the operation of merchant capital - the major region-specific factor - with the other factors blocking the industrial development of the state.

Industrial backwardness of Kerala and its causative factors have been the subject matter of many a study, and a number of hypotheses have been advanced in explanation of the phenomenon. But most studies seem to offer only partial
explanations. Some of those are:

1) lack of capital;
2) lack of entrepreneurship;
3) high wage rate and militant trade unionism; and
4) Central Government's apathy towards the state, together with the failure of the different ruling parties of the state in creating a favourable climate for industrialisation.

In a recent study, the hypothesis that high wage rate is the binding factor for successful industrialisation has been proved totally baseless as far as the medium and large scale industrial sector of Kerala is concerned. In the same study the authors point out that the focus of any further study should be on the lop-sided industrial structure of the state which manifests weak inter-industry linkages. Though the study was capable of demolishing a commonly-held view, it left other major areas for further investigation, like the background in which the lop-sided industrial structure came to stay in the economy. Further, this study lacks a historical perspective.

Another major work titled "Historical Roots of Industrial Backwardness of Kerala" attempted to look at the problem in a historical way but was confined only to
the period upto 1965. Moreover it treated Travancore as a
distinct economic unit, without comparing its economic
structure with other colonies which shared a number of
common characteristics with Travancore.

What is attempted in the present work is to approach
the problem of industrial backwardness of the state in a
historical perspective. In this sense, the present exercise
is a departure from the conventional method where only quan­
titative aspects are usually taken into account. Such an
approach seems to be helpful in identifying the specific
limiting factors of the state's industrialisation. More­
over, the study is perceived in a broader framework of third
world experience of industrialisation. It is within this
canvas the study examines the industrial backwardness of
Kerala in relation to the export-oriented industrialisation
pattern pursued from the colonial period itself.

With this perspective in mind, the present study pur­
ports to make an enquiry into the structure and process of
industrialisation of Kerala by adequately recognising its
export-oriented character with a view to understanding the
industrial backwardness of the state.

The evolution and transformation of the industrial
structure under the initiative of British colonial capital
needs to be understood. Specific mention is made of the export-oriented pattern of the development of the industrial sector and also of the economy in general during this period. It is further shown how extraversion has resulted in the disarticulated development of the economy. The perpetuation of the characteristics of extraversion and disarticulation of the economy during the post-colonial period is analysed in the context of national and state-level policies. Further, examination is also made of the export-oriented pattern of industrialisation that has come to stay in the economy. The role of merchant capital which is conducive to the persistence of industrial backwardness of the state has been specifically focused.

Methodology

The study is both historical and analytical. The historical part of the study is carried out with the information and analysis provided in the available published works. The analytical part depends to a large extent, on secondary data collected from official and other sources.

Even though the present State of Kerala is constituted by the erstwhile Princely States of Travancore and Cochin, and the district of Malabar which was part of the Madras Presidency, our study is mainly confined to the State of
Travancore for the colonial period because it was in Travancore that every major change was more pronounced than in the other two parts, in terms of European investments, export-orientation, evolution of traditional industries or modern industries etc. Cochin followed more or less the pattern of Travancore and Malabar did so to a lesser extent. Moreover, Travancore deserves special attention for, during the late forties, this state ranked top among the princely states in terms of industrial development. The subsequent decades witnessed a decline in the relative industrial performance of this state which never again attained the level of even the national average in industrialisation.

Chapter Scheme

For the purpose of analysis the thesis is divided into six chapters. The introductory chapter gives a brief account of the industrial structure of Kerala. The statement of the problem, objectives and methodology form part of this chapter. The conceptual framework underlying the analysis is discussed in the second chapter. The major currents in the literature on third world industrialisation with particular emphasis on the interrelationship between export-orientation and industrial backwardness have also been examined in this chapter.

The third chapter deals with the industrialisation experience of Travancore from the beginning of the colonial
period upto 1947. The origin and evolution of the export-oriented industries (both traditional and modern) and the role of colonial policy in their evolution are analysed in this chapter. Mention is also made of how the export-orientation of the whole economy acted as a base for the disarticulated development of the economy by the time of the retreat of colonial capital. The post-colonial developments in the industrial sector are analysed in the next chapter. The export-orientation of the traditional and modern industrial sectors and the overall outward-orientation of the whole economy are also examined. Further, the persistence of disarticulation and the resultant industrial backwardness are analysed in the context of the presence of merchant capital in the economy, a major internal factor for the perpetuation of industrial backwardness. The role of government policies, another major factor in the perpetuation of export-orientation which has a causal effect on the economy in the disarticulation and industrial backwardness, constitutes the fifth chapter. The last chapter summarises the major conclusions of the study.
References


3. Ibid.


5. Ibid.


8. Ibid. Also Statistics for Planning 1986.


15. Ibid.

16. Ibid.