CHAPTER V

POLICY INTERVENTION AND EXPORT-ORIENTATION

We have already seen that in spite of the disappearance of colonialism, the basic character of the industrial structure of Kerala, viz., its export-orientation changed little. Similarly, the different industrialisation strategies followed by the government of India from time to time also could not bring about any perceptible change on the industrial structure. This lack of dynamism needs some explanation. In this chapter, we attempt to analyse this by discussing the basic features of the government policies and their impact on the industrial economy of Kerala.

As early as 1962, National Council for Applied Economic Research (NCAER) carried out a Techno-Economic Survey of Kerala. It was at the request of the State Government of Kerala to assess technically feasible and economically viable projects in the different sectors of the state economy over the coming decade (the sixties) that the NCAER undertook the study. One of the major recommendations of the study was "the alternative approach which is the more feasible one for Kerala is to consider power generation itself as an industry and to develop the state's abundant hydro-power resources to the maximum extent
possible............. Planning for a power surplus and export of electrical energy to the neighbouring states should therefore form the keynote of the future power development policy". They also opined that "the electricity exported would provide a revenue which in turn could be used for capital formation within the state". No doubt, the pattern of industrialisation envisaged here is outrightly export-oriented. What is more, for two decades from 1962 to 1982, this had been the guiding philosophy of the Kerala State Electricity Board (KSEB). The document prepared by the KSEB for the Steering Committee on energy, Sixth Five Year Plan 1978 argues: "Water is as much a raw material as any other like minerals or metals and electric power generation and export of power as much an industry as the production of any other commodity produced in Kerala and marketed beyond the borders of Kerala". The gravity of this issue is understood only when we learn that, 'Power' has been the most important sector to which allocation is made until the Sixth Five Year Plan, accounting about 25 per cent of the total plan expenditure. This should be understood in relation to the fact that, electricity which was once very cheap and the most attractive factor for industrialisation in Kerala, became more expensive during the subsequent years, and thus lost its attraction.

Regarding the agricultural sector also, the NCAER held
a similar view. For, they cautioned against the policy of giving too much emphasis to paddy production and suggested encouraging plantation and cash crops as, Kerala's topographical and climatic conditions are more suited to plantation and cash crops. This was nothing less than a policy prescription towards export-oriented development, and that too at the expense of the food crops.

Another study also was undertaken by the NCAER in 1969, at the request of the State Government to assess the industrial possibilities for the Fourth Plan. The recommendations of this study are more interesting, as this has got more concrete ideas about the nature of export-orientation of the economy, which more or less conformed to the South East Asian Countries' experience (reference to which is made in the study of NCAER). One of the major highlights of the study was that "the maritime position of the state, the port facilities at Cochin and the power potential of the state make Kerala suitable for the development of exclusively export-oriented industrial complex".

Major suggestions of the Report are the following:

1. In the agricultural front, deficit in food requirements was to be compensated by imports from other states but further emphasis was to be laid on plantation and cash crops.
2. Industry was to be modernised and higher technology introduced. Further, industrial growth was to occur more from engineering industries.

3. The aim in respect of the power sector was to be such as to create a large surplus and make it a paying industry by export to neighbouring states.

4. Emphasis was to be laid on public works programmes for stimulating employment.

5. Family planning and encouragement of emigration to other states were to be given greater stress.

What is unique about these recommendations is that all of them directly or indirectly give emphasis on export-orientation in the sphere of industry, agriculture, power, and even employment. It is in the absence of a proper role for the industrial sector that employment generation was suggested to be left to the public works department.

The NCAER further suggests that "it is considered advisable for the State Government to initiate a very comprehensive study to explore all possibilities for export-oriented industries, and also to determine the magnitudes of development in each industry............. It is strongly recommended that the State Government pursues with the Centre, the creation of
conditions necessary for setting-up export-oriented industries in Kerala". 9

They have also stated in unequivocal terms that as the traditional export items did not present any possibility of increase in the foreseeable future, Kerala should switch over to the production of non-traditional export-oriented industries, which should be based on imported raw materials. 10 This study thus seems to be all out for converting the whole economy of the state into a fully export-oriented one. In the industrial sector, it visualises an export-oriented non-traditional industrial complex based on imported raw materials.

At the request of the Government of Kerala the Indian Institute of Foreign Trade (IIFT) conducted an "Export Potential Survey of Kerala, in 1972.* In the introductory part of the Report, the following observation was made: "Kerala's contribution to all India export earnings of over eight per cent per annum is mainly related to traditional items like tea, cashew, spices, and coir and coir-based products. The potential for expanding and diversifying the production of export-oriented, agricultural, marine and forest products, handlooms, handicrafts,

*It may be noted in this context that the formation of the IIFT itself in the late sixties was the result of the adoption of the policy of promoting non-traditional export-oriented industries of the Government of India.
engineering goods and chemicals and allied products is however considerable. With a view to identifying and exploiting this potential for enabling the state to increase the contribution to the country's export efforts, the Government of Kerala commissioned the IIFT to conduct a comprehensive export potential survey of the state".  

As future strategies of development, it prescribed the following measures: (1) a change in the pattern of land utilisation for increased production of export crops; (2) establishment of export-oriented units/creation of additional capacities; (3) provision of adequate port and shipping facilities; and (4) planned development of tourism.  

It is in this context that the setting up of the KELTRON group of industries assumes significance. The Kerala State Electronics Development Corporation (KELTRON) was registered in 1972 and started functioning from 1973. Following the Bhabha Committee Report (1966), a separate Department of Electronics (DOE) was created by the Government of India in 1970, and an Electronics Commission was created in 1971. With a view to spreading the growth of electronics industry in each state, the Electronics Commission made requests to the Chief Ministers of each state to establish this industry. It was in
this background that the KELTRON group was founded in the state. What is even more significant is that an industrialisation boom that appeared in the seventies, after the forties, was on account of the investments made in KELTRON. KELTRON exhibited all the features of a third world export-oriented (non-traditional) manufacturing industry with high dependence on foreign collaborations, imported raw materials and employment of cheap female labour.

In the early eighties, the Trade Development Authority took up a study on behalf of Kerala State Industrial Development Corporation (KSIDC) viz.. "Feasibility Study for Setting up Export Processing Zone (EPZ) in Kerala". The gist of the report is given below:

The concept of an EPZ is old and functional. It refers to an exclusive industrial estate designed for promoting industries engaged in the manufacturing, processing, and assembling of export goods. Basically an enclave within the country, the EPZ is free from national customs and administration formalities. As long as certain goods - indigenous or imported - are processed within the zone for export to third country markets, these are not subject to usual national customs, taxes or duties. The liberal policy applies to both imports into and exports from the zone and covers capital goods, components and materials.
It also emphasised the role of MNCs in promoting the export-oriented industries in the EPZs. In short the EPZ proposed in Kerala was exactly in line with those of the South East Asian countries. The basic principles of EPZ such as cheap labour made available by stringent labour laws, free imports (of relevant raw materials, machinery etc.), foreign collaborations, free, uninterrupted supply of electricity and the enclave type existence, detached even from the network of existing laws and rules in the country, not to speak of the other spheres of the economy, were all applicable to the EPZ of Kerala also.

In 1983, with the Chief Minister as Chairman and the Industries Minister as Vice-Chairman the Government of Kerala established an Export Development Council (KEREXIL) thereby setting an example by being the first among the Indian States in installing such an export development agency. The principal

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*The role of MNCs in the Cochin Export Processing Zone will be clear from an advertisement of Amp. U.S.A. appeared in Indian Express, 10th October, 1991: "There are many more who have discovered this fast – emerging tax-free zone (not just Amp. U.S.A., the world leaders in connectors). Zelron Industries, U.S.A., Advance Project Technology U.K., Nuova Covema, Italy; FSC Co., Hong Kong; Frini Antenne, Italy; Elite Electronics, U.S.A., Integrated Computing Environment, U.S.A., to name a few".

**There was a convenant between the power board and the CEPZ to supply uninterrupted power to the latter. See Indian Express, 29th April, 1990.
functions of the Council are to facilitate mutual consultation, to review state's export performance, to suggest development of new items for export and to recommend measures for promoting exports from the State.  

In 1988, with a view to identifying the thrust areas, and drawing up an active plan for stepping up the exports of Kerala in an organised manner, KEREXIL commissioned the TDA to undertake a study, "Action Plan for Promoting Exports from Kerala". In the section 'Strategy for Promoting Exports from Kerala' it points out: "One of the main export constraints of Kerala has been lack of new exportable products. In the past, exports have often been considered of commodities for which surpluses existed (traditional items like cashew, spices, coir and coir products and marine products) rather than products to be developed specifically for foreign markets. The export strategy for enhancing exports from Kerala has been drawn up, keeping in view the national export policies".

In 1986, appraising Kerala's Sixth Five Year Plan performance, the Institute for Financial Management and Research (Madras) suggested that Kerala should go by the principle of comparative advantage in agriculture, ie. the state should concentrate and specialise in plantation crops rather than wastefully using its scarce resources on promoting paddy cultivation.
From the recommendations of various bodies commissioned by the Government of Kerala, or the KSIDC or the KEREXIL, what becomes apparent is that there was a conscious effort to maintain Kerala as an export-oriented economy based on the principle of comparative advantage. These study teams were more concerned about the national priorities, not taking into account the effects on the state's economy of converting the whole region into an export-oriented one. The changes in the international industrial atmosphere and the corresponding changes in the Indian industrial policies were reflected in the suggestions of all the agencies. For example, the NCAER which submitted its report in 1962 advised to give thrust to the plantation sector (which certainly was export-oriented), the centre's policy being the maintenance of the existing export sectors. But by 1969, the neo-classical thought got rejuvenated and had begun to advocate manufactured exports from the third world countries, in the light of the technological advances made by the MNCs. This change was very well reflected in the report of the NCAER (1969), shifting emphasis to non-traditional manufactured exports, such as electronics, readymade garments, durable consumer goods, domestic appliances, etc.¹⁹ The electronics industry and the readymade garments industry are the two sectors which were usually subcontracted to third world countries by the MNCs. All the subsequent studies recommended
the state to follow export-oriented development in all the spheres.

Major Features of Industrial Policies of the Government of Kerala Since Fifties

While the suggestions and recommendations of all the study teams were to adopt an export-oriented development path in all the spheres of the economy, including the industrial sector it is also required to examine, whether the industrial policies of the Government of Kerala had anything more to offer. As indicated earlier, the state of Kerala had come into being only in 1956, and the first elected Ministry under the Communist party took position in 1957. Though this government had not announced an industrial policy as such, it continued the policies of the previous governments. That is, they also invited entrepreneurs from other states (the established big business houses) to start industries in Kerala. Responding to the invitation, the Birla group established the Mavoor Gwaliyor Rayons in Calicut and another business house from Bombay started the work of Premier Tyres at Kalamassery. In the words of E.M.S. Namboodiripad, the then Chief Minister, "the setting up of the Gwaliyor Rayons Factory at Mavoor near Kozhikode and the Premier Tyres at Kalamassery near Aluva are two creditable achievements of that Government". 20
According to E.M.S. Namboodiripad, "there was no alternative to the State Government except taking initiative in getting private industrialists (from outside) to set up as many units as possible in the state". 

Hundreds of acres of bamboo forest was given at throwaway price (one rupee per ton) to the Birla-owned industry which was even critically mentioned in the Public Accounts Committee of Parliament.

The Industrial Policy Statement of the second Ministry (led by the Congress - PSP alliance) on 3rd June 1960 was more or less on the same lines. The Industries Minister stated: "It has been the policy of the present government to encourage industrialists of repute and standing outside the state to invest in industrial activities in the state. With a view to attract them.............the government have initiated several schemes. Giving financial assistance to industrialists on nominal rate of interest with and without property security giving bank guarantees in deserving cases, capital participation, providing built-in accommodation, arranging distribution of raw materials, marketing facilities etc. are only a few among them". 

In the traditional sector also, there was no effort to find a market for the products within the state. Instead, the industrial policy stated that the coir industry will be modernised with sophisticated technology and machinery (which of course, would have to be imported) in order to make the industry competitive in the international
The formation of the Kerala State Industrial Development Corporation, Ltd. (1961), The Trivandrum Spinning Mills Ltd. (1962) and the Plantation Corporation Ltd. (1962) were the only notable achievements of early sixties.  

The next industrial policy was announced in 1967 under the rule of the Marxist-led United Front Government. The Government in its industrial policy stated that the state would function within the limits of the policy laid down by the Government of India. Also it stressed that the Government's policy would be directed to smoothen the process initiated by the Central Government. The policy of inviting non-Malayali entrepreneurs in the absence of a nascent industrial class, continued this time also. The then Industries Minister even went to Japan to invite industrialists to invest in Kerala. After the industrial policy statement of 1967, it was only in 1983 the next industrial policy was announced. This policy announced by the Congress Ministry gave utmost emphasis to electronics industry.  

A clear shift towards a policy of promoting export-oriented industries was reflected in the industrial policy announcement of 1990 by the Left Front Ministry. On the pattern of various Indian Growth Funds created by the Union
Government in the context of India's export-oriented strategy of development, the Kerala Government also formulated a scheme for creating a Kerala Growth Fund (though not approved by the centre) with the active participation of global capital. With this aim, the Chief Minister and also the Industries Minister visited America to attract capitalists to Kerala in its export-oriented development programme. The aim of the government was to develop industries catering to outside markets. In the words of the Vice-Chairman of Kerala Planning Board, "There is enormous scope that Kerala offers given its stock of graduates in engineering services and mathematics for computer software industry, an industry with enormous export potential". Inaugurating a Round Table Conference held under the auspices of the Confederation of the Engineering Industry in Trivandrum, Smt. K.R. Gowri, the Industries Minister said that the government had declared light engineering industry as a thrust area eligible for special capital subsidy, along with rubber, electronics, food-processing, pharmaceuticals and leather. Stating that Kerala's traditional exports like coir, cashew and marine products have not

*On the basis of this perspective, the government established an Electronics Technology Park in Trivandrum and decided to open similar ones in Cochin and Calicut.*
registered much increase in terms of quantity, the Minister called for a change in the traditional pattern of exports by identifying and producing export items like garments. This was, no doubt, strictly in accordance with the Export-Oriented Industrialisation Strategy pursued in third world countries and promoted by multinational corporations.

The latest industrial policy announced in 1991 by the Congress-led Government has gone a step further by deciding to convert Kerala itself as a Centre of High Technology Industry, which is evidently meant to catering to the foreign markets. Also, the government have identified electronics, rubber processing, food-processing, light engineering, drugs and pharmaceuticals, leather, ceramics, silica, garments as 'thrust industries' and are eligible for an investment subsidy of Rs. 20 lakhs. These 'thrust industries' are none other than those identified as export-oriented industries by global capital.

Thus, by the beginning of the nineties, the export-orientation of the economy attained greater dimensions. In accordance with the Indian industrial policy of export-oriented industrialisation, Kerala is being prepared for a take-off in export-oriented industries. As the KSIDC Managing
Director noted, "Kerala has innate potential to grow into a key industrial destination of the nineties, particularly for export-oriented investments". He also stated that the recently announced industrial policy of the State Government (1991) was designed to dismantle all the real or perceived barriers to private investments in this realm. The Cochin Export-Processing Zone (CEPZ) would provide every required support for the promotion of export-oriented projects. The Electronics Technology Park at Trivandrum would offer world-class facilities in the electronics industry.

A brief survey of the export promotional bodies working in the state also reveals the gravity of export promotional measures adopted by both the Central and State Governments (see Appendix to this chapter).

The above analysis clearly shows that policy intervention has been quite effective in fostering the export-oriented development pattern that Kerala inherited from colonial period. Moreover, this orientation was brought to further heights during the post-colonial period. In other words, there was a conscious effort on the part of all the authorities concerned, to make Kerala an export-oriented economy in all respects.
Appendix

The major Central and State Government agencies involved in export promotional activities amount to more than thirty in number. Some of them may be listed below:

1. Commodity Boards: The Central Government bodies include Coir Board, Cardamom Board, Rubber Board and the Regional Offices of Tea Board and Coffee Board. These boards were set up for promoting the production and export of traditional items to traditional and non-traditional markets by better development of finance and marketing techniques and to build up an image of creditability in terms of quality specifications and deliveries.

2. Export Promotion Councils: A number of export promotion councils had been set up jointly by the Government of India and the trade and industry to examine various problems related to marketing, export policy and procedures, import and export procedures, excise and sales tax and disbursement of financial assistance provided by the Government of India. Cashew and Spices Export Promotion Councils were located in Kerala. Also, Regional Offices of the Gems and Jewellery Export Promotion Council and all India Handicrafts Board were also functioning in Kerala.
3. Marine Products Export Development Authority (MPEDA): MPEDA was established to look into matters relating to fish production, processing, marketing etc. MPEDA set up for the development of exports of marine production of India is now concentrating its efforts much on the marketing side.

4. Cochin Export Processing Zone (CEPZ): CEPZ was expected to promote industries of non-traditional nature and improve technology and foreign investment with the available skilled labour and resources.

5. Other Central Government Organisations having their Regional Offices in Kerala which were directly or indirectly involved in exports/export promotion and other related services were STC, Cashew Corporation of India, Handloom and Handicrafts Export Corporation, ECGC, Export Inspection Agency, Deputy Chief Controller of Imports and Exports, Office of the Customs, Air Cargo Complex and Cochin Port Trust.

State Organisations

The Kerala Government had set up a number of corporations and organisations relating to production and marketing of various commodities produced in the state. Some of the corporations were directly involved in the exports of these items while some
others were exporting indirectly through State Trading Corporation, export houses or private firms.

The following were the corporations/organisations of Kerala involved in exports.34

1. Coconut Development Board.
2. Land Use Board
4. Central Plantation Crops Research Institute
5. Kerala Farm Information Bureau.
8. Kerala State Cooperative Bank
10. Kerala Cooperative Coir Marketing Federation
17. Kerala State Electronics Development Corporation.
   i) Kerala Soaps & Oils Ltd.
   ii) Travancore Plywood Industries Ltd.
   iii) Kerala State Drugs & Pharmaceuticals Ltd.
   iv) Kerala Electrical & Allied Engineering Corporation Ltd.
   v) Kerala Ceramics Ltd.
   vi) Kerala State Detergents & Chemicals Ltd.
   vii) Trivandrum Rubber Works Ltd.

22. Kerala Agro Machinery Corporation.
24. Oushadhi
25. Transformers and Electricals Kerala Ltd.
References


3. Ibid.


12. Ibid.


26. Ibid.


32. Ibid.


34. Ibid, p. 51, 52.