



Contribution of different sectors in Kerala

Kashish Bhambri

Student

O.P Jindal Global University

Abstract

In this paper, emphasis has been given to discussing Kerala's growth since the 1980s along with its GVA (Gross Value added). Kerala has become one of the states registering a high growth rate in the country (Kumar). This paper discusses the various sectors of Kerala and the Indian economy which contribute to the country's GVA. Also, the role of the "Kerala model" is emphasized which includes a set of social and economic development policies that have contributed significantly to the state's growth and have helped in reducing poverty and inequality. Kerala took many measures such as land reforms, establishing a mandatory free education system, introducing a public distribution system, and expanding the public healthcare system which have frequently been cited as key factors contributing to Kerala's impressive human development indicators.

Introduction

Economists have long grappled with the enigma of economic growth. Extensive research and literature have contributed numerous insights, yet predicting when an economy entrenched in decades of struggle will finally embark on a path of sustained growth remains an intricate challenge. Examining India's growth track record reveals a noteworthy achievement, as it has established itself as one of the world's fastest-growing economies. One of the most interesting states to study in India is Kerala. The state covers an area of 38,863 square kilometres with approximately 3,57,00,000 inhabitants (according to populationU.com). Although Kerala in South India is a small state, it has the 9th largest economy in the country. It was after the 1980s, that Kerala experienced two significant trends in its economy: it underwent rapid economic expansion while also grappling with an increasing wealth gap, ultimately reaching the highest level of inequality among all Indian states by 2009-2010 (Subrahmanian). But Kerala's government has been working continuously to reduce this inequality in recent years.

After gaining independence in 1947, Kerala saw a series of grassroots protest movements that led to the state government's implementation of redistributive measures. These measures included limited land reforms, establishing a mandatory free education system, introducing a public distribution system, and expanding the public healthcare system. These policies, combined with a relatively low level of income inequality, have frequently been cited as key factors contributing to Kerala's impressive human development indicators. However, since the early 1990s, the state has witnessed significant economic growth while the human development indicators continue to be the highest among Indian states.

According to the Indian Human Development Report (2011), Kerala stands first in the Human Development Index among all the other Indian states. Kerala has consistently upheld an impressive literacy rate, far surpassing the national average. The state has made substantial investments in the field of education, resulting in nearly universal primary education and significant advancements in higher education.

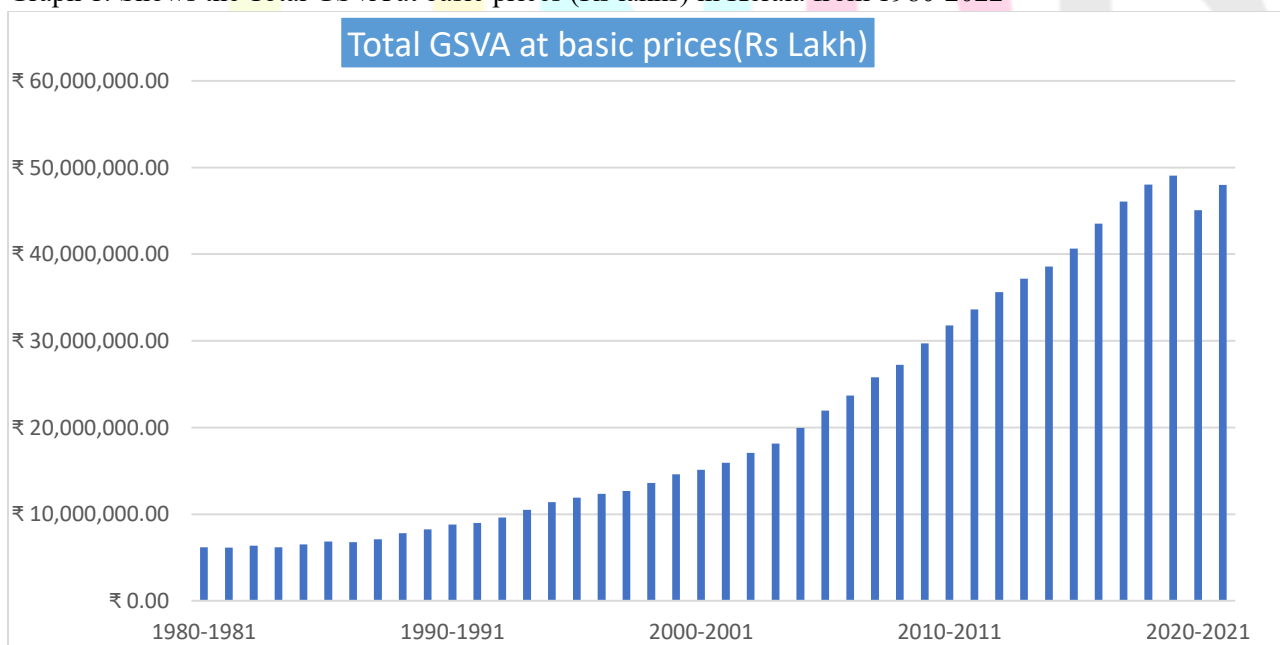
Kerala has done a good job of treating men and women equally. The gender ratio in Kerala shows that it has more female population than male. Kerala represents the highest sex ratio with 1084 females per 1000 males against 940 at the Indian level (Sanitha V.P). Women in Kerala have more chances to learn, and work compared to women in other parts of India. It is also evident that Kerala has achieved significant advancements in both GSVA (Gross State Value Added) and per capita income when compared to other Indian states. In contrast to its historical performance during the 1950s, 1960s, and 1970s, Kerala's recent progress in production and service/tertiary sector is particularly praiseworthy (Kumar).

Trends of GVA in Kerala and India

Although Kerala is a small state region with a large multi-regional economy, its remarkable experience in development has received an enviously large space in the literature (K. K. Subrahmanian). “The Kerala Model” which includes a set of social and economic development policies that have contributed significantly to the state's growth and have helped in reducing poverty and inequality was mainly adopted in the 1950s. It happened because Kerala had some special things going on like people working together to make society better, strong political movements, and a focus on making things fair for everyone. The Kerala Model has achieved notable success in human development indicators, including high literacy rates, improved healthcare, and reduced poverty.

Kerala boasts a decentralized governance system that empowers local communities to have substantial influence over the administration of public services, such as education and healthcare. Remarkably, Kerala has achieved remarkable social development outcomes, surpassing even more economically affluent regions in India. This accomplishment has garnered global recognition, prompting extensive study and admiration within the field of development economics. The state has an annual gross state product (GSP) of ₹9.78 lakh crore (US\$131.98 billion) in 2020–2021. Per-capita GSP of Kerala during the same period is ₹257,711 (US\$3,200), the sixth largest in India.

Graph 1: Shows the Total GSVA at basic prices (Rs lakhs) in Kerala from 1980-2022

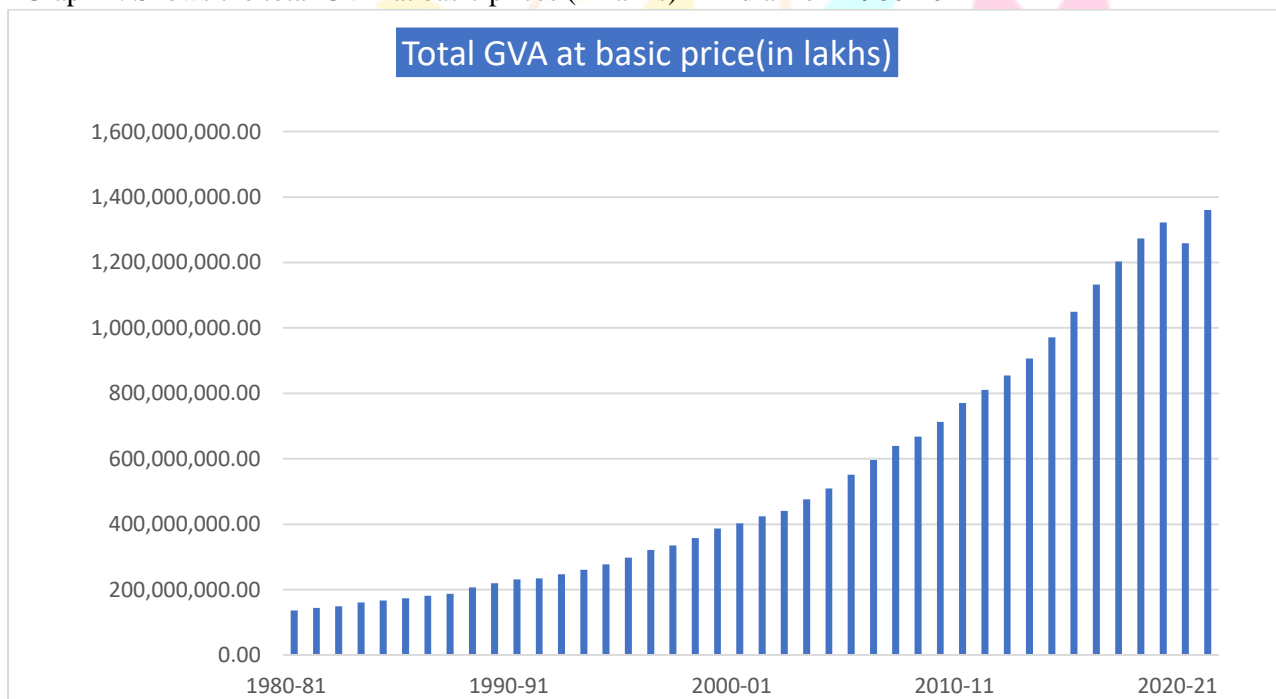


Data source: Reserve Bank of India (RBI)

In the early 1980s, Kerala's economy was primarily agrarian, with agriculture playing a dominant role in GVA. During the 1990s, Kerala's Gross Value Added began to tilt in favor of the services sector, largely propelled by the expansion of education, healthcare, and tourism. In the early 2000s, Kerala experienced a surge in the information technology (IT) and service sectors (Kannan, Towards a Knowledge-based Economy in Kerala Issues and Challenges).

The above graph shows the GVA of Kerala from 1980-2021. The base year for the data is taken as 2011-2012. It shows that the GVA of Kerala has been increasing over the past few years. It was 61,71,987 (Rs) in 1980-1981 which increased to 1,51,36,391 (Rs) in 2000-2001. The analysis shows that the only dip in GVA in Kerala in recent years has been in 2020-21. This is due to covid 19. The Covid-19 pandemic had a significant impact on Kerala's economy, affecting tourism, the service sector, and remittances. The state implemented measures to address the economic impact of the pandemic, including support for small and medium-sized enterprises (SMEs). Therefore, an upward trend in the GVA can be observed. The steady increase in the GVA reflects an upward development of the economy over the years and a healthy trend in the state economy.

Graph 2: Shows the total GVA at basic prices (in lakhs) in India from 1980-2022



Data source: Reserve Bank of India (RBI)

The above graph shows the GVA of India from 1980-2022. The base year for the data is taken as 2011-12. The graph shows that the GVA of India has been increasing over the past few years. In the 1980s and early 1990s, India's GVA growth rate was relatively moderate, mainly driven by agriculture and some manufacturing sectors. India experienced a period of more rapid economic growth from 1999 onwards possibly due to "New Economic Policy" or "LPG Reforms". There is an increase in GVA but at a faster rate after these policies because these policies led to increased foreign investment, trade liberalization, and changes in economic policies.

India's GVA was 13,68,48,100 (Rs) in 1980-81. Then it increased to 40,24,83,100 (Rs) in 2000-2001. There was a dip in 2020-21 due to covid where the GVA fell to 15,85,07,400 (Rs). In 1980-91, Kerala contributed approximately 4.5% to India's GVA. Whereas in 2000-2001 Kerala's contribution decreased to approximately 3.7%. During covid, its contribution declined further to 3.5%. But after covid, the economy recovered and showed a growth of 8.6%. While Kerala's per capita income was 20% below the national average in 1987-88, it managed to reach parity with the national average by 1993-94. Subsequently, the state's per capita income

continued to rise, reaching 30% above the national average in 2004-05 and an impressive 60% above the national average by 2017-18.

Structural transformation in Kerala

Since the 1980s, Kerala's economy has also been experiencing a wide variety of changes in its productive sectors and other dimensions of the economy and the economy has changed from a traditional backward agrarian economy to a modern growing economy (K.C. Zachariah). Changes in the economy's structure, adjustments in employment trends, and improvements across a range of industries have all been hallmarks of this revolution. There has been a huge decline in agricultural production of crops such as rice, pulses, cashew nuts, etc due to the reduction in area under these crops, though the yield of these crops improved to some extent (Sanitha V.P) which had further led to a steep fall in the proportion of agriculture and associated sectors in the gross state domestic product (GSDP). The share of agriculture and allied sectors like mining in GSD has rapidly declined from 21.04% in 1980-81 to 7.78% in 2010-11.

All the subcomponents of the secondary sector have shown an increasing trend during the period of 1980-81 to 2010-11. On the other hand, the share of the tertiary sector has also been increasing over the years. The 60th round of NSSO indicates that employment was the highest in the tertiary sector (42.6%) followed by secondary (31.8%) and primary sectors (25.5%). According to the data, in 1983, approximately 39% of the rural population in Kerala lived below the poverty threshold, and the level of income inequality was 0.33. As we move forward to the 55th round of NSSO, both the Gini ratio (a measure of income inequality) and poverty rates decreased. In the 61st round, around 13% of the population fell below the poverty line, and the income inequality index was 0.34.

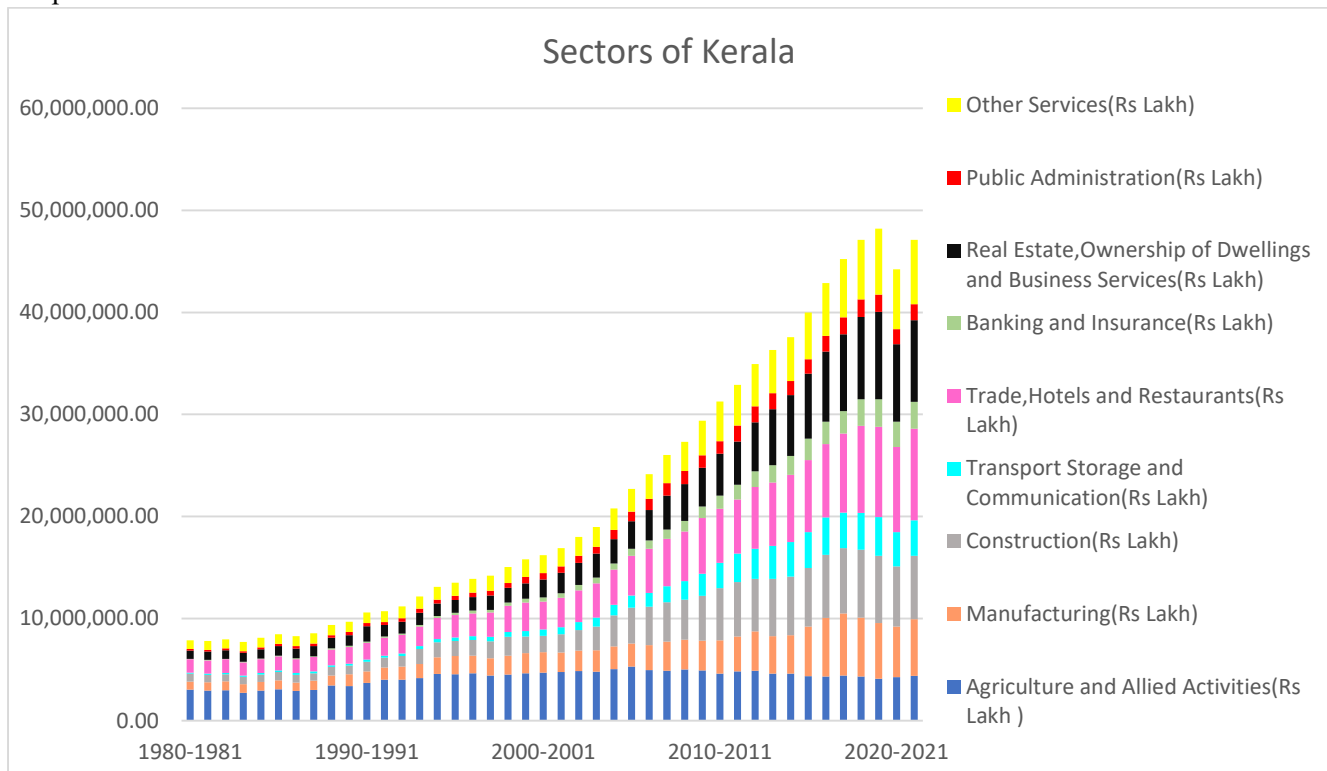
However, in subsequent periods, while the poverty rate continued to decrease to only 9%, income inequality remained relatively high at 0.41. In recent years, the process of urbanization in Kerala has intensified, manifesting as a rising urban population residing within cities and towns. This has led to changes in lifestyle and employment patterns.

Contribution of different sectors in Kerala and India

Kerala's model of development from 1980 to 1990 was characterized by a focus on human development and social welfare. During this period, the state continued to invest in sectors like education, healthcare, and social services, which had been a priority since the 1950s. Kerala's model of development from 1990 to 2010 continued to build upon the foundations laid in the previous decades while adapting to changing economic and social dynamics. The state placed a high priority on ensuring that everyone could access excellent education, resulting in impressive literacy rates, particularly among women. This well-educated workforce became an asset for the state's progress. Kerala also continued to emphasize healthcare, especially primary healthcare, and public health initiatives, which resulted in a strong healthcare system, low mortality rates, and longer life expectancy.

Furthermore, the state actively promoted gender equality and the empowerment of women through initiatives that focused on women's education, job opportunities, and reproductive health rights, contributing to Kerala's distinctive gender development metrics. Additionally, Kerala increasingly acknowledged the significance of preserving the environment during this period, implementing policies aimed at safeguarding natural resources and addressing environmental challenges. The Kerala Model has been widely recognized for its success in improving human development outcomes and reducing poverty and inequality.

Graph 3: Shows the different sectors of Kerala from 1980-2022



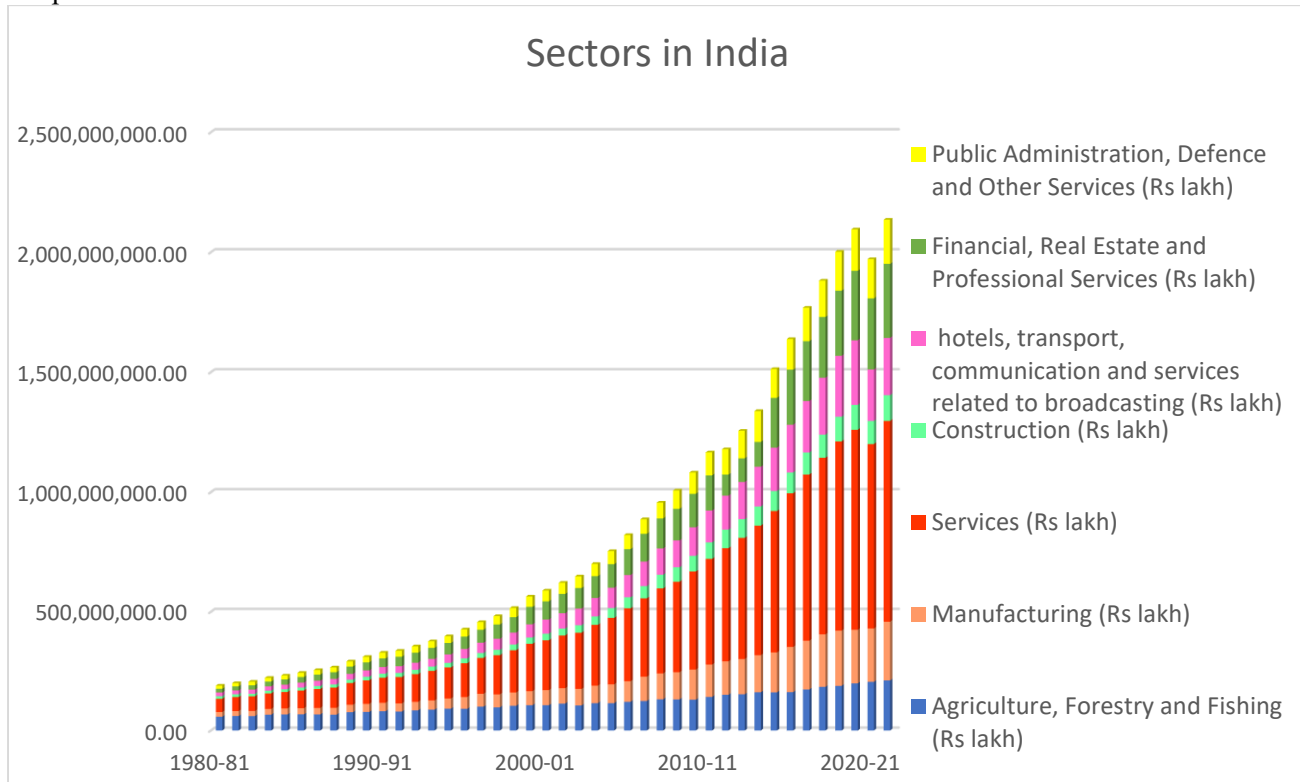
Data source: Economic and Political Weekly Research Foundation (EPWRF)

The above graph indicates the contributions of different sectors in Kerala's GVA from 1980-2022. The base year is taken as 2011-12. One of the most significant trends in Kerala's GVA has been the dominance of the tertiary sector, including communication, trade, repair, hotel and restaurants, transport, storage, and other services. The resurgence in income growth in Kerala since the late 1980s has been primarily driven by the tertiary and secondary sectors, which include services, manufacturing, construction, utility services, etc. These sectors have largely thrived due to domestic demand. Over the past three decades, starting from 1988-89, the combined average annual growth rate of incomes in Kerala's service and construction sectors has remained at approximately 8%.

Several factors have contributed to stimulating domestic demand in Kerala. The agriculture sector in Kerala is noteworthy for providing relatively elevated incomes, primarily because of the cultivation of profitable crops such as coconut and rubber. Although the proportion of agriculture in the Gross Value Added (GVA) has declined over time due to urbanization and economic diversification, these crops have consistently made significant contributions to the state's overall economy.

In addition to farming, Kerala benefits from a substantial overseas community, particularly in Gulf nations and various global locations, where many Keralites are employed. The financial support sent back by these expatriates has a notable impact on stimulating local demand. Kerala's widespread reputation as a tourist hotspot, celebrated for its natural splendour, picturesque backwaters, and cultural heritage, significantly bolsters domestic consumption. The tourism sector plays a vital role by creating jobs and income opportunities in areas like hospitality and transportation. Furthermore, enhanced availability of credit and financial services can incentivize greater spending by consumers.

Graph 4: Shows the different sectors of India from 1980-2022



Data source: Economic and Political Weekly Research Foundation (EPWRF)

The above figure shows the contribution of different sectors in India since the 1980s. The base year is taken as 2011-12. In the 1980s, agriculture was a major contributor to India's GVA, employing a significant portion of the population. However, it can be clearly seen from the graph above that agriculture is not as popular as it used to be for contributing to the GVA in recent years due to factors like urbanization, land fragmentation, and weather-dependent challenges. Agriculture's contribution to GVA increased from 5,81,11,300 (Rs) in 1980-81 to 21,09,69,700 (Rs) in 2021-22 but it is very small as compared to increase in services from 5,56,87,800 (Rs) in 1980-81 to 83,85,37,300 (Rs) in 2021-22.

Therefore, there is a clear shift from the primary sector. Whereas both the secondary and tertiary sectors have shown an upward trend due to industrialization, liberalization, and globalization policies. Information technology (IT), business process outsourcing (BPO), and software services have played a pivotal role in the rapid expansion of the tertiary sector. Structural transformation in employment: the share of Agriculture fell from 70% in 1980 to 47% in 2014. Market Services and Construction absorbed the bulk of the workforce quitting Agriculture (Bishwanath Goldar). Government initiatives like "Make in India" and infrastructure projects have driven construction activity, making it a significant contributor to GVA.

Challenges in Kerala in recent times

While Kerala is well known for its remarkable achievements in social human development, it is also referred to as a 'paradox of social development and economic backwardness'. Despite experiencing significant social development, the underwhelming economic performance prompted a series of discussions. The widespread economic stagnation from 1975-76 to 1986-87 served as the foundation for numerous investigations into sectors related to commodities and infrastructure.

Kerala has started facing unique challenges, particularly in recent times. The number of people who can work in Kerala is going to decrease before 2031, which is almost 20 years earlier than the rest of the country. This means Kerala will have more elderly people and needs to be careful about becoming more unequal. Kerala should find new ways to make money in industries that can provide jobs for educated people in the state. But,

some parts of Kerala don't have enough workers, especially for jobs that don't need a lot of skills. Specifically, individuals from the Scheduled Tribes, the Scheduled Castes, and fishing communities have not progressed as much as others in terms of education and career achievements. In Kerala, the labour force participation rate (LFPR) of females is low—31.9% compared with 78.9% for men but it is still better than the national level.

Conclusion

The portion of the primary sector in Kerala's Gross State Domestic Product (GSDP) has decreased significantly, but the reduction in the employment share within this sector has not occurred. Furthermore, the surplus labour force has transitioned from the primary sector to the secondary sector, resulting in an oversupply of labour in the secondary sector. Throughout the process of structural transformation, there has been a noticeable shift of labour away from agriculture, as seen in the declining labour force participation rate in rural areas, especially among rural women. To tackle the acute shortage of labour, the establishment of a "Labor Bank" is recommended. This would enable the provision of the necessary skilled laborers for agricultural tasks as needed. To enhance employment opportunities, the government of Kerala can strategically allocate resources towards comprehensive skill development initiatives. This investment would aim to empower the workforce with the requisite competencies demanded by sectors like technology, healthcare, and renewable energy.

Additionally, fostering collaborative ventures between the public sector and private enterprises could be instrumental. Such partnerships would encourage joint investments in endeavours that have the potential to generate substantial job openings, including the development of critical infrastructure projects and dedicated industrial zones. Another important part of the plan is to make sure that the education and job training programs match up better with the skills that are in demand for today's jobs. This way, we can reduce the gap between the skills people have and the skills they need to get a job. By doing all these different things, Kerala can start to solve the problems with employment and build a strong economy that includes everyone.

References

- Bishwanath Goldar, K. L. Krishna, Suresh Chand Aggarwal, Deb Kusum Das. "Productivity growth in India since the 1980s: the KLEMS approach." Indian Economic Review (n.d.).
- K. K. Subrahmanian, E. Abdul Azeez. "INDUSTRIAL GROWTH IN KERALA :." (2000).
- K.C. Zachariah, S. Irudaya Rajan. "IMPACT OF REMITTANCES OF NON-RESIDENT KERALITES ON KERALA'S ECONOMY AND SOCIETY." The Indian Journal of Labour Economic (2011).
- Kannan, K.P. "Kerala's Turnaround in Growth: Role of Social Development, Remittances and Reform." Economic and Political Weekly (2005).
- . "Towards a Knowledge-based Economy in Kerala Issues and Challenges." Trivandrum, 2021.
- Kumar, B. Pradeep. "Economic Growth, Structural Transformation and Incidence of Poverty: Evidence from Kerala Economy." International Journal of Arts, Science and Humanities (2021).
- Sanitha V.P, Naresh Singla. "STRUCTURAL TRANSFORMATIONS IN KERALA'S ECONOMY: IS THERE ANY ROLE OF AGRICULTURE SECTOR?" Journal of Regional Development and Planning, (2016).
- Subrahmanian, K. "Rising inequality with high growth, isn't this trend worrisome? : analysis of Kerala experience." (2008).

Economy of Kerala. (n.d.). Wikipedia. https://en.wikipedia.org/wiki/Economy_of_Kerala

Sreeraj, A., & Vakulabharanam, V. (2015). High growth and rising inequality in Kerala since the 1980s. Oxford Development Studies. https://www.researchgate.net/publication/283790474_High_growth_and_rising_inequality_in_Kerala_since_the_1980s

Kannan, K. P. (2003). Kerala's Turnaround in Growth: Role of Social Development, Remittances and Reform. Economic and Political Weekly. <https://www.jstor.org/stable/4416172>

Thomas, J. (2021, June). The Achievements and Challenges of the Kerala "Model." The India Forum. <https://www.theindiaforum.in/article/achievements-challenges-kerala-model>

GROSS DOMESTIC PRODUCT OF KERALA AND INDIA. (2017). DEPARTMENT OF ECONOMICS AND STATISTICS KERALA 2017. <https://ecostat.kerala.gov.in/storage/publications/176.pdf>

