



Structural Changes and Growth in Kerala Economy

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Abstract

Economic reforms are primarily intended for achieving higher economic growth. It can make structural changes and shifts in economies over years. During 1990s Kerala was ahead of other states in the country except in the matter of industrialisation. The reforms introduced in the country has its own impact on the different sectors of the Kerala economy. The present paper examines the structural changes and growth of the State during the post-reform period in terms of 1) State Domestic Product and Per capita Income on absolute basis and 2) Sectoral Share of State Domestic Product in comparison to pre-reform period. It was found that the mean shares of the primary sector and the tertiary sector in Kerala during Phase I (1993-94 to 2002-03) and Phase II (2003-04 to 2013-13) in the post reform period differ significantly. However, the secondary sector remained stationary without reporting significant changes over the two phases. While the growth of the primary sector and secondary sectors were highly fluctuating, the growth of the tertiary sector was less fluctuating with consistent positive growth

Keywords: Kerala economy, sectoral changes in economy, reforms in Kerala

I. Introduction

Kerala is the Indian State which showed the World that economic growth is not a pre requisite for development (Sarngadharan, 1992). It has attracted wide spread and well-deserved international attention for its remarkable achievement in social spheres, particularly in the fields of land reforms, health and education (Thomas, 2005). Being the first Indian State to implement land reforms, the State with highest life expectancy with lowest birth rate, lowest infant mortality, and the only State with hospital facility in every village and the State in which the communication infrastructure is the highest, the

growth of industry has been tardy (KSIDC, 2004). Probably, except in the matter of industrialisation, Kerala is significantly ahead of the rest of India. Industrialisation in Kerala is unquestionably far from being proportionate with the socio economic achievements for which the State is so fairly famed. A number of scholars had pursued studies on the industrial scenario of the state with different hypotheses and came out with diverse conclusions for the said backwardness. The present paper examines the economic performance of the State during the post-reform period in terms of,



1. State Domestic Product and Per capita Income on absolute basis.
2. Sectoral Share of State Domestic Product in comparison to pre-reform period.

II. Economic Performance – Core Literature

Kerala has featured a significant growth on the economic front during 1990s compared to the growth of the economy during 1970s and 1980s (Govt. of Kerala, 2003, p. 2.). The performance of the State when viewed on aggregate terms is ranked much below the neighbouring States and the all India average. However, its pattern of development with strong government intervention in the social sectors has been unique and has drawn considerable attention - popularly known as the 'Kerala Model' of growth. Its basic characteristic is the paradox of high social development and economic stagnation (Subramanian, 1990, p. 2053; Eapen, 2001, p.47). In terms of certain indicators of social development such as life expectancy at birth, infant mortality rate, decline in birth and death rates and literacy rate, Kerala is significantly ahead of the rest of India and with respect to most of these indicators, it is even ahead of China (Thomas, 2005, p. 763.). A very distinguishing feature of social achievement of Kerala is that, more than the other Indian States, these achievements have cut across caste and gender barriers, and have been carried to regions across the State (Ramachandran, 1996 quoted by Thomas, 2005, p. 763.). However, its per capita income is low and growth in State Domestic Product (SDP) has generally lagged behind the all India average (Panikar and Soman, 1985; Issac, 1993; George, 1993; Ramachandran, 1996; quoted

by Eapen, 2001, p.47). But contrary to the general belief that the economy of the State is growing at a rate lower than other States, one of the publications of the Reserve Bank of India, 'Handbook of Statistics on Indian Economy 2000', articulates that the economy of Kerala has perked up and the Net Domestic Product of Kerala registered a growth of 59.08 percent during the period 1989-90 to 1997-98. This is higher than that of Tamil Nadu (58.64%) and Karnataka (51.26%) (Govt. of Kerala, 2000, p. 16).

III. State Domestic Product (SDP) and Per capita Income

The growth of SDP and per capita income at constant prices floor some means for a glimpse on the economic scenario of the State since 1994-95 to 2012-13. During the ten year period from 1994-95 to 2003-04, the SDP of the State has registered a fluctuating growth trend registering a highest growth rate of 12.28 per cent (2002-03) and the lowest of 2.60 per cent (2000-01) and an average rate of 6.36 per cent at constant prices. The figures of per capita income growth during the period are, 10.71 per cent, the highest (1994-95), 1.89 per cent the lowest (2001-02) and 5.34 per cent the average.

During the period from 2004-05 to 2012-13, the SDP of the State has also registered a fluctuating growth trend registering a highest growth rate of 9.28 per cent (2005-06) and the lowest of 5.79 per cent (2008-09) and an average rate of 7.51 per cent at constant prices. The figures of per capita income growth during the period are, 8.51 per cent, the highest (2005-06), 5.06 per cent the lowest (2008-09) and 6.77 per cent, the average.



Table 1 Growth of State Domestic Product and Per capita Income (at Constant Prices)

Period	SDP		Per capita Income (Rs.)	
At 1993-94 prices	Amt. (crore)	Growth Rate	Amt. (Rs.)	Growth Rate
1994-95	25335	9.12	8327	7.76
1995-96	26398	4.20	8570	2.92
1996-97	27438	3.94	8798	2.66
1997-98	28633	4.36	9079	3.19
1998-99	30644	7.02	9619	5.95
1999-00	32716	6.76	10178	5.81
2000-01	33565	2.60	10510	3.26
2001-02	34509	2.81	10709	1.89
2002-03	39342	12.28	11994	10.71
2003-04	43936	10.46	13209	9.20
Average	32251.6	6.36	10099.3	5.34
Period	SDP		Per capita Income (Rs.)	
At 2004-05 prices	Amt. (crore)	Growth Rate	Amt. (Rs.)	Growth Rate
2004-05	104776	6.79	31871	6.16
2005-06	115500	9.28	34837	8.51
2006-07	124625	7.90	37284	6.56
2007-08	135747	8.19	40288	7.46
2008-09	144094	5.79	42433	5.06
2009-10	157123	8.29	45921	7.60
2010-11	167178	6.01	48504	5.33
2011-12(P)	180812	7.54	52095	6.89
2012-13(Q)	196077	7.79	56115	7.16
Average	147325.8	7.51	43260.89	6.77

Note: 1. (P) = Provisional estimate; (Q) = Quick Estimate.
 2. Growth rate is the percentage change over the previous year.

Source: 1. Govt. of Kerala, Economic Review

2. Govt. of Kerala, Statistics for Planning



IV. Sectoral Share of State Domestic Product

The Sectoral share of SDP of Kerala (Table 3) has undergone significant structural changes over the years since 1950-51. The share of the primary sector to SDP which stood as 53.63 percent in 1950-51 made a small rise to 54.74 percent in 1960-61 and then started declining, without exception, to 49.44 percent in 1970-71, 40.27 per cent in 1980-81, 30.14 per cent in 1993-94, 17.09 per cent in 2003-04 and 9.50 per cent in 2010-11. This continuous fall in the share of primary sector had been observed as an inherent feature of a developing economy like India (Parameswaran Nair, 1992, p. 71; Pillai, 1994, p. 60-61). This Sectoral decline could be observed parallel at the national level also. Parameswaran (1992) and Pillai (1994) described that this lower percentage of sectoral share of agriculture and allied activities (primary sector) in SDP were not on account of a decline in production of agriculture and allied activities. In fact, in absolute terms, the contribution made by this sector would have substantially increased many folds. The fall is only in relative terms. This fall is only indicative of the greater contribution made by the secondary and tertiary sectors to the SDP. But a glance on the sectoral growth of the primary sector given Table 4 asserts that contrary to the above argument, the growth rate of agricultural production is falling steep especially during the late 1990s and early 2000s.

But considering the sectoral share of the secondary sector (comprising manufacturing, electricity, water supply and construction) which consists of the industry of the state as the major sub sector has recorded a consistent share in SDP from 1980-81 onwards without considerable variations on either side. The share of the secondary sector to SDP was 15.49 per cent in 1950-51, 14.57 per cent in 1960-61, and 16.32 per cent in 1970-71 and to a big jump to 20.57 in 1980-81. Thereafter the sector remained almost consistent in its sectoral share to SDP till 2012-13

ignoring wide variations and adhering to small amendments. It may be noted from the Table 3 that during the fifty-four year period from 1950-51 to 2012-13 the secondary sector has grown only to 20 per cent of SDP (approximate) from 15 per cent (approximate). Commending up on the secondary sector of the State by comparing the performance with the national average of the secondary sector (approximately 30 per cent of GDP), it is of note that the State's share is much lower and does not commensurate with the average performance suggested for the secondary sector of a developing economy (Parameswaran Nair, 1992, p. 72). This lower share of the secondary sector and its absolutely narrow increase over years is a definite indication of the slower growth of industry in the State as the major sub sector in the secondary sector. Reference to structural growth rate, the share of the secondary sector wherein industry (manufacturing) is the major sub sector, depicts that the sectoral growth rate is not on par with positive signs of stable development. The growth rate of the secondary sector was 10.14, -6.00 and 4.8 per cent (see Table 4) respectively for the years 2000-01, 2001-02 and 2002-03 (Govt of Kerala, 2003 p. 2). The growth rate of the secondary sector for the periods 2009-10, 2010-11 and 2011-12 was 19.73, 21.13 and 21.15 respectively.

The tertiary sector of the State has confirmed significant growth in its share to SDP by making a high push from 31.15 per cent in 1950-51 to 70.02 per cent in 2011-12. The consistent higher performance of the tertiary sector has positioned the sector to depict a growth rate of 10.48, 9.28 and 9.78 per cent (Table 3) respectively for the years 2000-01, 2001-02 and 2002-03. The territorial sector witnessed a growth rate of 12.15 per cent during the financial year 2009-10. sectoral growth rate in the tertiary sector during the year 2009-10 was witnessed 12.15 per cent. This healthy growth of the service sector and the



relatively higher rank of physical quality of life index are the definite indicators that in the field of education, banking and other service sector activities the State is ahead of the other States in the country. The territory sector offers some more

improved performance in the future as the two significant areas identified for the future growth of Kerala viz. Information Technology and Tourism are sub sectors of the territory sector (Annual Report -2004, KSIDC).

Table 2: Sectoral Share of Net Domestic Product of Kerala at Constant Prices (%)

Sl. No	Year		Primary	Secondary	Tertiary
1	1950-51	Pre Reform	53.36	15.49	31.15
2	1960-61		54.74	14.57	30.69
3	1970-71		49.44	16.32	34.24
4	1980-81		40.27	20.57	39.16
5	1993-94	Post Reform Phase I	30.14	20.90	48.96
6	1994-95		30.70	21.51	47.79
7	1995-96		28.90	21.85	49.25
8	1996-97		28.32	20.98	50.70
9	1997-98		28.26	20.47	51.27
10	1998-99		27.07	20.84	52.09
11	1999-00		26.01	19.48	54.51
12	2000-01		20.39	20.91	58.70
13	2001-02		19.84	19.79	60.37
14	2002-03		Post Reform Phase II	19.72	19.80
15	2003-04	18.28		20.11	60.17
16	2004-05	16.83		21.94	61.23
17	2005-06	15.48		21.90	62.19
18	2006-07	13.49		21.66	64.86
19	2007-08	12.29		21.51	66.20
20	2008-09	12.38		20.29	67.33
21	2009-10	11.02		19.73	69.25
22	2010-11	9.50		21.31	69.20
23	2011-12(P)	8.83		21.15	70.02
24	2012-13(Q)	8.44	23.36	68.20	

Note: 1. Base Year: For Figures 1970-71, 1993-94, 1999-2000 and 2004-05 were taken.

2. (P) = Provisional estimate; (Q) = Quick Estimate.

Source: 1. Figures up to 1981 from Kerala Economy: Four Decades of Development, 1994, P.P. Pillai, p. 46.

2. Figures from 1982 onwards computed from:

1. Govt. of Kerala, Economic Review 2. Govt. of Kerala, Statistics for Planning



The ANOVA results in Table 3 show that the mean shares of the primary sector and the tertiary sector in Kerala during Phase I (1993-94 to 2002-03)

and Phase II (2003-04 to 2013-13) differ significantly. However, the secondary sector remained stationary without reporting significant changes over the two phases (Table 3).

Table 3: ANOVA of Sectoral Share of Net Domestic Product - Post Reform Period Phase I and II

		Sum of Squares	df	Mean Square	F	Sig.
Primary Sector	Between Groups	881.925	1	881.925	58.563	.000
	Within Groups	271.070	18	15.059		
	Total	1152.995	19			
SecondarySector	Between Groups	2.067	1	2.067	2.412	.138
	Within Groups	15.428	18	.857		
	Total	17.496	19			
TertiarySector	Between Groups	786.133	1	786.133	44.997	.000
	Within Groups	314.475	18	17.471		
	Total	1100.607	19			

Source: SPSS generated result using data in Table 2

Figure 1: Sectional Share of SDP - 1960-61

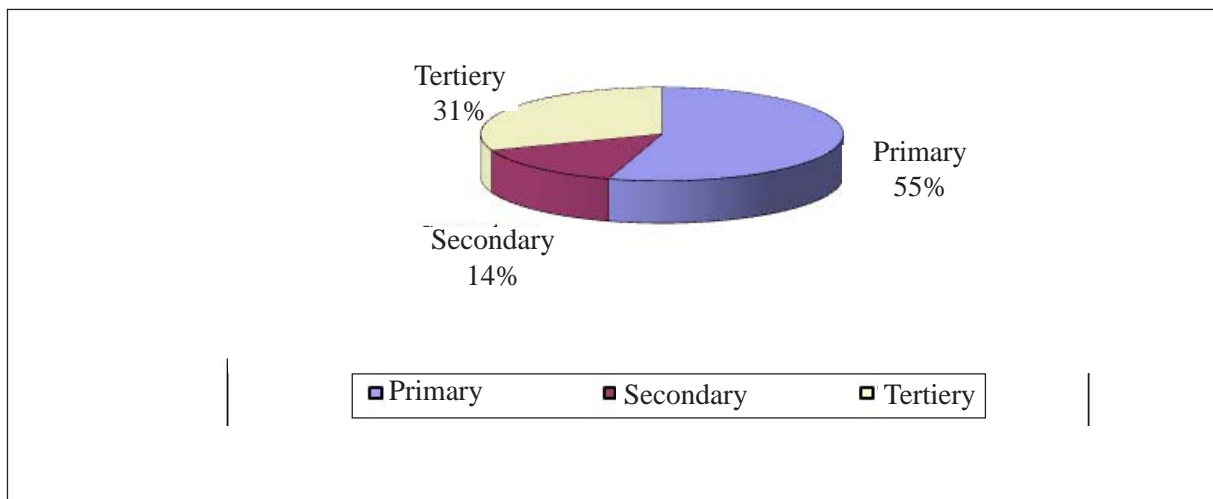




Figure 2: Sectional Share of SDP - 2004-05

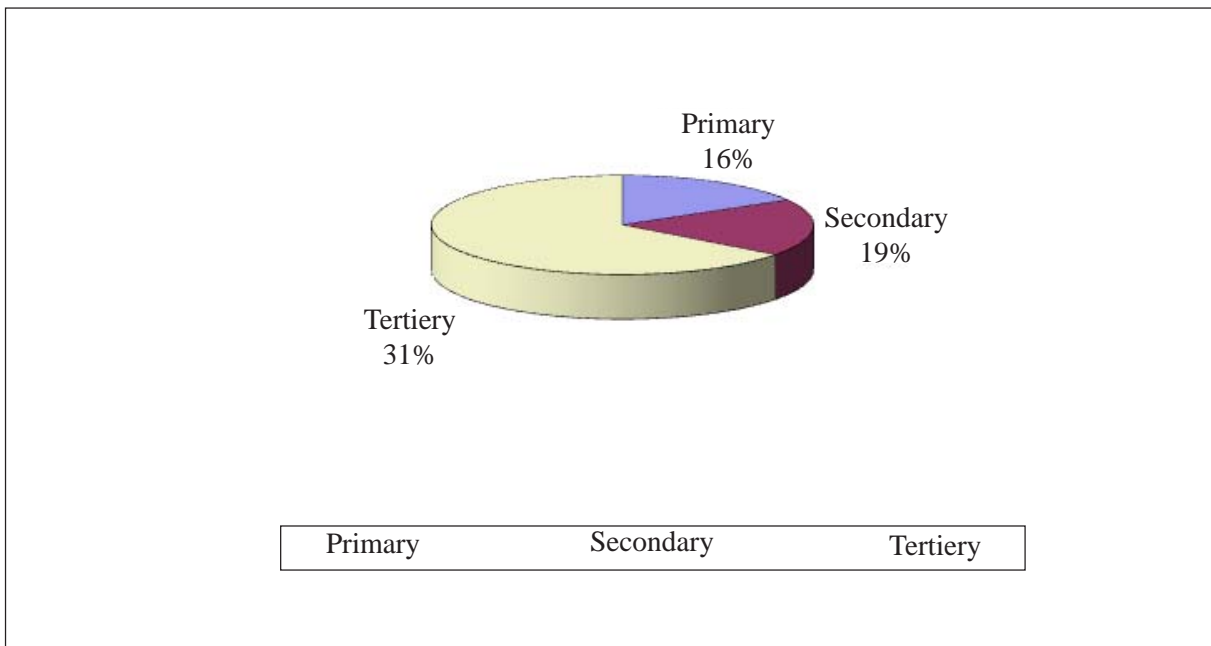


Figure 3: Sectional Share of SDP - 2012-13

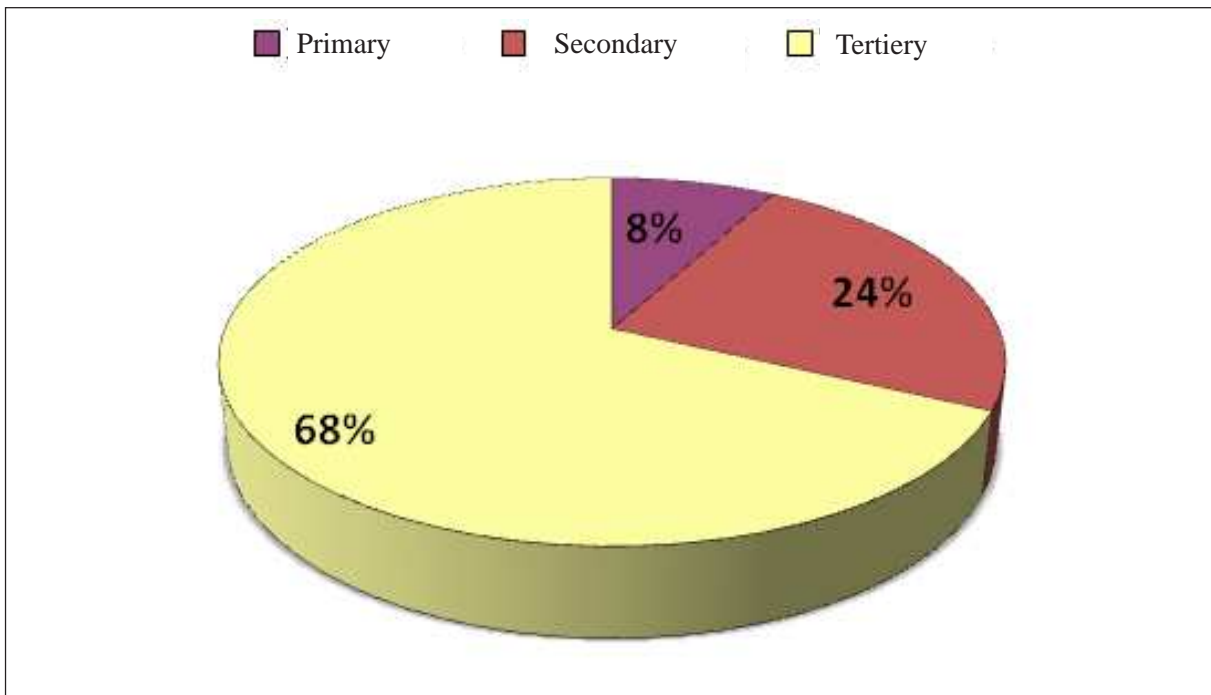




Table 3: Sectoral Growth Rate of Kerala

Year (Base Year 1993-94)	Sectoral Growth Rates			Overall
	Primary	Secondary	Tertiary	
1994-95	9.7	12.3	6.3	8.6
1995-96	-1.4	5.0	7.3	4.0
1996-97	3.0	-0.38	6.6	4.00
1997-98	-5.60	3.00	6.70	2.20
1998-99	2.50	9.00	8.70	7.00
1999-00	2.6	-0.20	11.7	6.80
2000-01	-19.60	10.14	10.48	2.60
2001-02	-1.03	-6.00	9.28	4.00
2002-03	-4.38	4.80	9.78	6.10
2003-04	2.8	10.7	7.7	7.4
Year (Base Year 2004-05)	Sectoral Growth Rates			Overall
	Primary	Secondary	Tertiary	
2004-05	2.5	1.3	13.8	9.2
2005-06	4.19	10.04	11.97	10.23
2006-07	-8.54	6.70	12.53	7.90
2007-08	-0.74	8.21	11.17	8.93
2008-09	6.94	0.10	7.97	6.15
2009-10	-2.98	6.07	12.15	9.04
2010-11	-8.29	14.88	6.32	6.40
2011-12	0.58	7.37	9.44	8.16
2012-13	3.65	19.75	5.63	8.44

Source: Govt. of Kerala, Economic Review, 1995 to 2013



Figure 4: Growth Rate of Primary Sector 1993-94 to 2012-13

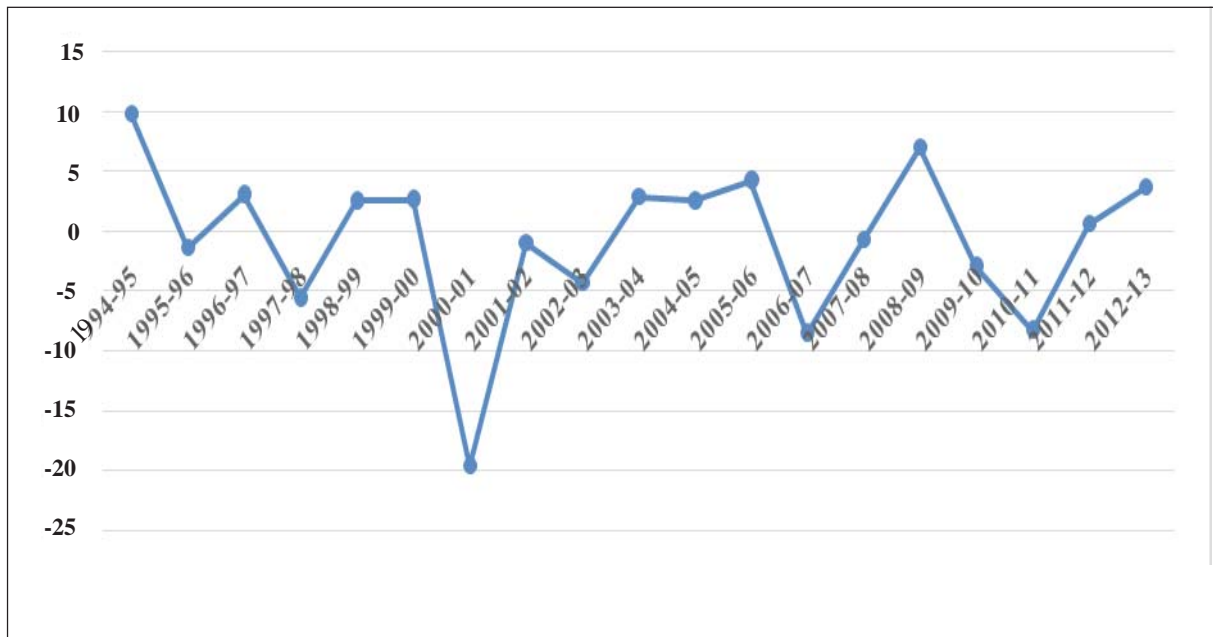


Figure 5: Growth Rate of Secondary Sector 1993-94 to 2012-13

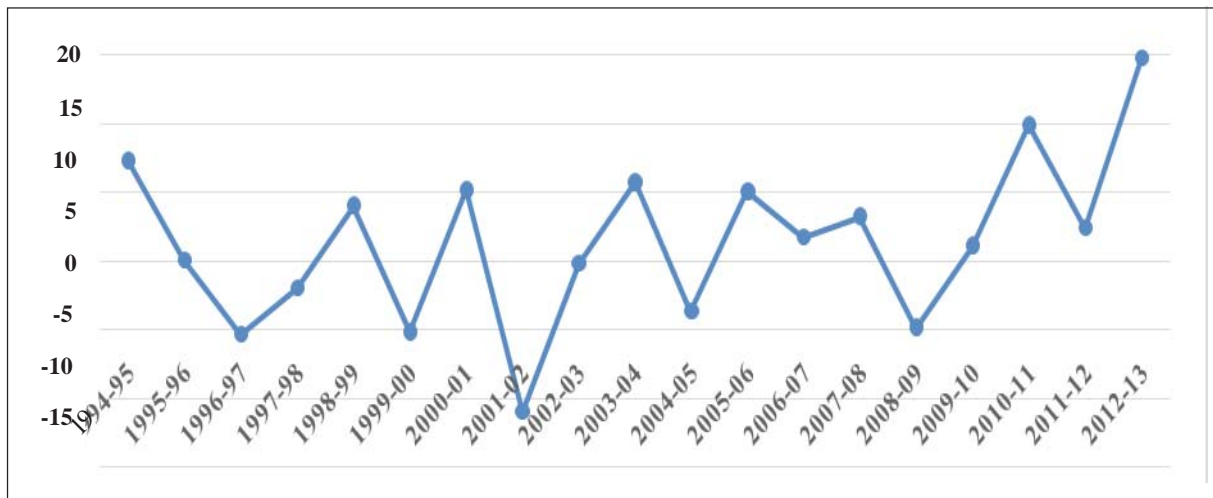
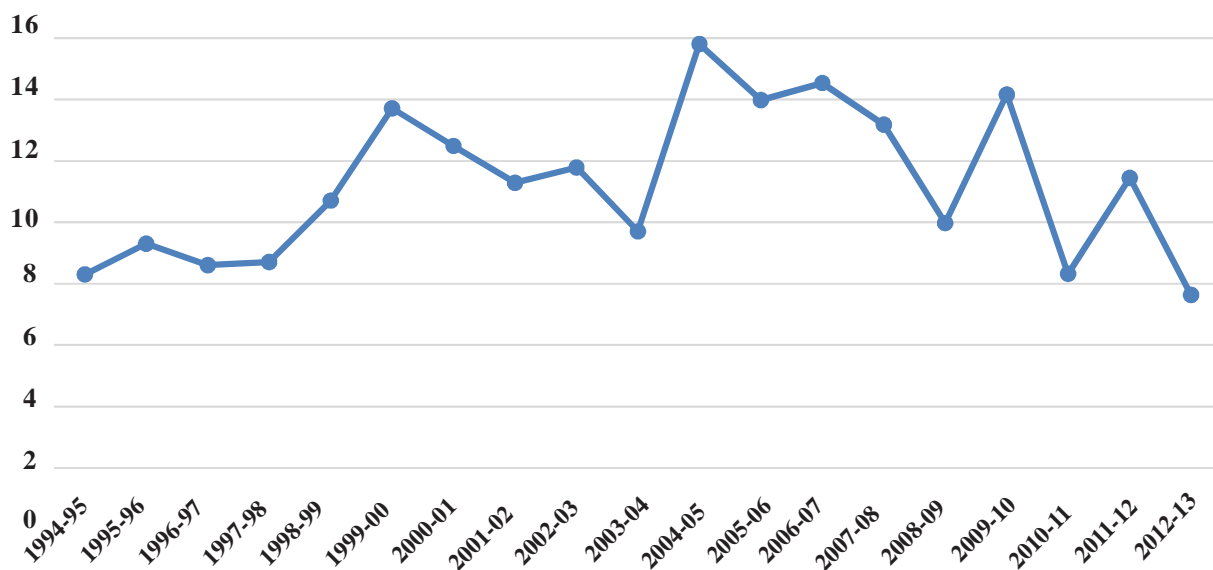




Figure 6: Growth Rate of Tertiary Sector 1993-94 to 2012-13



V. Conclusion

The examination of the structural changes and growth of the Kerala economy during the post-reform period in terms of State Domestic Product and Per capita Income on absolute basis, and Sectoral Share of State Domestic Product confirms structural change in the economy. The mean shares of the primary sector and the tertiary sector in Kerala during Phase I (1993-94 to 2002-03) and Phase II (2003-04 to 2013-13) in the post reform period differ significantly. The secondary sector remained stationary without reporting any significant change over the two phases. While the growth of the primary sector and secondary sectors were highly fluctuating, the growth of the tertiary sector was less fluctuating with consistent positive growth.

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