EXPORT-ORIENTED INDUSTRIALISATION AND INDUSTRIAL BACKWARDNESS: A STUDY OF KERALA

Thesis submitted
to the Cochin University of Science and Technology
for the award of the Degree of
Doctor of Philosophy in Economics
under the Faculty of Social Sciences

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SEPTEMBER 1992

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CERTIFICATE

I certify that the work entitled "Export-Oriented Industrialisation and Industrial Backwardness: A Study of Kerala" is the record of bona fide research done by Ms. A.N. Suja in fulfilment for the degree of Doctor of Philosophy in the Department of Applied Economics under my supervision. The thesis is worth submitting for the degree of Doctor of Philosophy in Economics.

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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.[1] 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.[2] 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.[3]

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.[9] The performance of the State Public Sector undertakings has been very disappointing. Out of 93 state sector industries, 61 have shown accumulating losses.[10] 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.[11] This should be viewed against the fact that Kerala had the largest number of state-run enterprises among all Indian states during 1981-82.[12]

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.[13] These include food products (39 per cent of employment) beverages (7 per cent), textiles (6.66 per cent) etc.[14] 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.[15]

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.[16] 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"[17] 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 quantitative aspects are usually taken into account. Such an approach seems to be helpful in identifying the specific limiting factors of the state's industrialisation. Moreover, 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 purports 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, constitutesthe fifth chapter. The last chapter summarises the major conclusions of the study.

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Chapter II

CONCEPTUAL FRAMEWORK

The present study is conceived within the broad framework of the experience of third world industrialisation in general. Third world industrialisation experience has been different from the experience of Europe and other advanced countries. The third world countries have many things in common, the most important among them being their common history of colonialism which have given them many distinct features applicable only to third world countries. Their lateness in industrialising deprived them of a number of advantages such as initial capital, command over natural resources, absence of competitors, etc.[1] This has severely constrained their industrialisation process.

Before going into the details of third world industrialisation, it may be in order to make clear some concepts which appear frequently in the study. The concept of industrialisation itself needs some elaboration. The level or measure of industrialisation is usually expressed in quantitative terms, namely, the index of industrial production or the growth rate of industries. However, a more comprehensive definition of industrialisation should take into account the qualitative aspect also. Industrialisation is, envisaged to be resulting in a structural transformation of the society characterised by the predominance of the secondary sector, a high rate of employment generation, high wage rates, increased agricultural production, development of infrastructural facilities, an overall development in the living standards of the people and above all, a change in social relations.[2] The structural change towards industrialisation implicit in this definition is generally glossed over if the value of industrial production per head of population is used as the sole yardstick of the degree of industrialisation.[3]

The notion of independent industrialisation involves something more than this. It is not merely 'derived' from the industrialisation of another economy. It should originate and be maintained by social and economic forces within the industrialising country. An important part of this notion concerns the paramount importance of domestic market though export markets are also of much significance. Another aspect of independence concerns the structure of industrial production so that the country concerned carries within its borders a wide range of industries including economically strategic capital goods industries. A further characteristic of independent industrialisation concerns the source and control of finance. The final element in the notion of independence is technology. Independent technological progress has been one of the corner stones of all successful industrialisations since the English industrial revolution. Apart from these economic factors, the existence of an industrial bourgeoisie who will productively use the surplus generated in the economy is also important. This also implies the presence of a state capable of defending the interests of the Industrial Revolution.[4]

Another related concept which needs special mention is "articulation". For industrialisation to become a propellant for the development of other sectors, the concerned economy must be well-articulated. "An articulated or coherent economy is ideally a system of forward and backward linkages, its sectors and regions will be complementary and there will be reciprocity of exchanges between them".[5] Thus a well-articulated economy demands the fulfilment of all the conditions of independent industrialisation discussed above. This kind of development is otherwise called "autocentric development"[6] implying development taking place as a result of an internal urge to industrialise, directed towards satisfying internal demand, using indigenous technology, expertise and capital and above all under the initiative of a nascent entrepreneurial class. This kind of a well-articulated economy which was the hall-mark of the industrialised societies during their industrialisation periods, is supposed to be absent in the present-day underdeveloped countries.

Any discussion on industrialisation, therefore, naturally necessitates an analysis of the different issues related to industrialisation such as markets, source of capital, technology, nature of industrial composition, nature of classes etc. In the present study, along with discussing the other aspects related to industrialisation, emphasis is laid on the relationship between trade and industrialisation which form the core of the present study. This chapter is divided into two sections: the first deals with the different views on the role of trade in industrialisation and development; and the second describes the history of underdevelopment and the characteristics of third world industrialisation.

A. Historiography of Various Approaches to Trade, Industrialisation and Development

This section aims at a survey of various schools of thought regarding the interrelationship between trade and industrialisation as well as their relationship with economic development in general. Here the focus is on those approaches which are relevant to the topic of study; export-oriented industrialisation and industrial backwardness. Since none of these approaches could provide a comprehensive explanation to the mutually related aspects of trade, industrialisation and development, we do not proceed with any particular approach. However, as each one provides a partial explanation to third world industrial backwardness and the related problem, a review of the relevant literature is undertaken with a view to collecting and assembling the building blocks for a relevant framework for the present study.

The first formulation of trade becoming the propelling force for economic development appeared in the work of Adam Smith.[7] On the basis of his theory of absolute cost difference*, Smith argued that free international trade would lead to increased specialisation and division of labour in a country provided unemployed resources existed there in the pre-trade situation. However, it is the Ricardian theory of comparative advantage[8] that became the foundation stone of theories of free trade.** Following the footsteps of Ricardo,

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* According to Adam Smith, international trade would be of mutual advantage if one country has absolute cost advantage over another in one line of production and the other has an absolute cost advantage over the first country in another line of production. (See G.M. Meier, "Leading Issues in Economic Development, 1984).

** Ricardo went a step ahead of Smith and argued that any two countries can very well gain by trading even if one of the countries is having an absolute cost advantage in both the goods over another, provided the extent of absolute advantage is different in the two commodities in question, i.e., comparative advantage is greater in respect of one good than that in the other. Each country should specialise in that commodity for which the country concerned had a comparative advantage. (Ranjit Sau, "Towards a Marxian Theory of International Trade and Capital Flow", EPW, Special Number, 1977).

J.S. Mill[9] through his principle of reciprocal demand* further elaborated the beneficial effects of free trade.

The comparative cost theory was further developed by neo-classical economists.[10] They have traced the root of comparative cost differences to the inter-country diversity in relative factor endowments. Neo-classical economists go on to argue that a labour-abundant economy would have lower relative cost in labour-intensive commodities, and a capital-abundant country in capital-intensive commodities. In spite of the anomalies such as the Leontief Paradox and the factor-intensity reversal, the Heckscher-Ohlin-Samuelson Theorem further claimed a tendency towards international factor-price equalisation and a definite improvement in social welfare.[11] The formulation of trade as an 'engine of growth' by Dennis Robertson was another contribution to the neo-classical thought on international trade.[12]

The crux of the arguments in favour of international trade in the classical and neo-classical literature is the following:

1. Trade is an important stimulant of economic growth. It increases a poor century's consumption capacities and provides access to scarce resources and world-wide markets for products.

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* According to J.S. Mill the share of the gain accruing to the trading parties depends upon the elasticities of the demand of one country for the goods of the other, or the intensity of reciprocal demands (Meier, op.cit.).

2. Trade tends to promote greater international and domestic equality by equalising factor prices, raising real incomes of trading countries and making efficient use of each nation's and world's resource endowments.

3. Trade helps countries to achieve development by promoting and rewarding those sectors of the economy where individual countries possess a comparative advantage whether in terms of labour efficiency or factor endowments.

4. Since international prices and costs arising out of free trade maximise a country's national welfare, countries should not try to interfere with the free working of the international trading system.

5. Finally, in order to promote growth and development, an 'outward looking' internationalist policy is required. In all cases, self-reliance and autarchy are asserted to be economically inferior to participation in a world of free and unlimited trade.[13]

However, these classical and neo-classical theories formulated in the context of European and American societies, proved inappropriate when applied in the case of trade between the Western industrialised countries and their colonies. The 'free traders' ignored the harmful effects of colonialism in poor countries. It is even argued that these theories were used by the colonial countries to protect their interests in the colonies.*

One of the major assumptions of these theories is that the factors of production are internationally immobile. That is, the location of an export industry, according to these theories, would be determined by the pre-existing supply of factors of each country.[14] Contrary to this assumption, the colonial trade was carried out on the basis of international mobility of most of the factors of production viz., capital, raw materials and labour.

Another major deficiency of the theory of comparative cost lies in its static character. What is a comparative advantage today may cease to be so tomorrow. Moreover, the free traders apply in practice the criterion of comparative costs in the most static way and compare current prices instead of the future social prices.[15]

Similarly, the Ricardian assumption of elastic markets and stable prices is inconsistent with the experience of underdeveloped countries where the greatest difficulty with the export of raw materials is the inelastic markets and unstable prices.[16]

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* In his discussion on Britain's trade with her colonies, Marx had clearly pointed out this aspect (Karl Marx, "On the Question ofFree Trade" in Marx and Engels "Collected Works" Vol.6). See later discussions.

The export-oriented strategy of growth pursued by underdeveloped countries casts serious doubt on the positive effect of trade envisaged by classical and neo-classical theories. There is reason to believe that though trade may promote export earnings* and increase output levels, it need not necessarily be a desirable strategy for economic and social development. Therefore, the nature of the export sector and its linkages with the rest of the economy are of much significance.[17]

As for the distributional effects of trade, the principal benefit of world trade has accrued disproportionately to rich nations and within poor nations disproportionately to both foreign residents and wealthy nationals. Contrary to the conclusion of traditional trade theory that free trade will tend to equalise incomes, trade in fact tends to reinforce existing inequalities.[18]

The theory of comparative advantage is also criticised from the standpoint of several other theoretical[19] and empirical investigations. The study of Hilgerdt shows that if the supplies of manufactured goods available to the poorest group of nations could be raised to even one-half the level of the

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*Consequent to a rise in export earnings, though the net barter or commodity terms of trade, P_x/P_m, of underdeveloped countries goes up, their position may still be unfavourable since this is associated with an accelerated outflow of foreign exchange in the form of profits and dividends accruing to foreign firms. See G.M. Meier, "International Economics of Development",Oxford University Press, New York, 1968,Chapter 3.

industrial nations by trade alone, the poorer nations would have to raise their imports of these goods by a factor of 16, which is twice the value of all international trade combined. The conclusion emerging from his analysis is that the problem could not be solved by international trade.[20]

Historically, the prices of primary commodities (the exports of most less developed countries) have declined relative to manufactured goods. Kindleberger's study for the period 1913 to 1952 indicates that Europe's terms of trade with the areas of recent settlement show a 20 per cent improvement, while in trade with poorer countries, Europe's terms of trade have improved by as much as 55 per cent. This clearly establishes the deterioration in terms of trade against the underdeveloped countries.[21] Another study by the U.N. Department of Economic Affairs[22] also comes out with similar conclusions.* Though the report warns that the terms of trade, especially the commodity terms of trade** constitute only one

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* According to the U.N. study noted, the index of the ratio of prices of primary products to those of manufactured commodities showed a declining trend, from 147 in 1876-1880 to 100 in 1938.

** Neo-classical trade theory has evolved various concepts of terms of trade. They are: net barter terms of trade, gross barter terms of trade, income terms of trade, single factoral terms of trade, double factoral terms of trade, real cost terms of trade and utility terms of trade. See G.M. Meier, "International Trade and Development" 1963, Chapter 3.

factor in determining national income and funds available for economic development, it seriously questions the classical postulate that "trade is an engine of growth". Studies relating to the later periods also indicate the same trend. Between 1955 and 1970, the terms of trade for developed countries rose by over 10 per cent while that of the third world fell by over seven per cent.[23]

Study conducted for the period 1900-1986 has come out with the conclusion that the primary commodities' terms of trade with manufactured goods have deteriorated considerably over the period under discussion. It depicted a statistically significant trend rate of decline of 0.59 per cent per year for the real prices of non-fuel primary commodities over the first 86 years of the present century. This amounts to a cumulative trend fall of some 40 per cent.[24]

The principal reason for the deterioration in the terms of trade are:

1. The demand for raw materials compared to that of manufactures is relatively inelastic.
2. Technological progress has reduced the input requirements of raw materials in manufacturing industry.
3. The import of raw materials into the developed countries has been reduced by restrictive measures.

4. Synthetics have been developed and are put to ever-increasing use.

5. The allocation of the gains accruing from a rise in productivity have differed in their effects on primary products and manufactures. In manufactures, the effect was rising prices and higher remuneration to factors of production; in raw materials the effect was to lower prices and to bring about a stand-still or a reduction in remuneration of factors of production.

6. The supply of raw materials greatly increased.[25]

The problem of the deterioration of terms of trade assumes greater significance when the trade dependence of the third world countries especially on primary commodities, is taken into account. Even in the seventies, the share of total exports to GNP of most of the third world countries formed 20 to 30 per cent, while this share was only about five per cent for countries like U.S.A.[26] Of this high percentage of exports, the primary products (food, raw materials, fuel and base metals) accounted for almost 80 per cent.[27] This must be viewed against the fact that the underdeveloped countries depend so heavily on the developed countries for their import requirements. Trade among the underdeveloped countries themselves is very small, the reason being that their economies are not complementary.[28] The percentage of total exports going to each other dropped from 23 per cent in 1960 to under 20 per cent by the mid-seventies.[29] In other words the third world countries became even more dependent on rich countries for both imports (of sophisticated products) and exports (of primary products). In 1970, for all underdeveloped countries together, imports of machinery amounted to a total value of more than 19 billion dollars while exports formed no more than one billion dollars.[30]

From an analysis of data pertaining to the period 1950-70, it is apparent that contrary to what occurred in the industrialised countries, there was almost no relationship between the rate of growth of exports and GNP of underdeveloped countries. This holds good for most of the third world countries. The absence of a correlation between exports and the rest of the economy was above all due to the fact that most goods exported by the underdeveloped countries were produced in economic enclaves (either plantations or mines) which had only a tenuous relationship with the rest of the economy and whose effects on the economy as a whole were consequently very limited.[31] For example, in most of the underdeveloped countries, five to seven per cent of the working population produce certain goods, almost 90 per cent of which were exported while the remaining 93-95 per cent of workers produce certain other goods of which only one per cent was exported, during the seventies.[32]

The ECLA Thesis*

These formulations portrayed the tendency of international trade to accentuate inequality among nations in terms of the centre-periphery relationship. Special attention was drawn to the consequences of differential technical progress and the worsening of the periphery's terms of trade.[33] Import-substituting industrialisation under tariff walls was advocated by them as an alternative for the export-led development. The popular names associated with this school were Raul Prebisch, Hans Singer, Gunnar Myrdal[34] and others. The ECLA thesis together with other works (described above), which were critical of the trade-development relationship in the context of third world countries, dominated the development literature during the fifties and sixties.

Resurgence of Neo-classical Theories

The neo-classical explanations of trade-development relationship which were put to rest during the fifties got a

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*It was during the fifties and sixties that theories questioning the neo-classical assumptions were evolved from the United Nations' Economic Commission for Latin America (ECLA). The main ECLA document was entitled 'The Economic Development of Latin America and Its Principal Problems' (1950) (G.M. Meier, op.cit.).

new lease of life during the next decades. The major reason for this revival was the failure of import-substitution under high protection as practised in a number of third world countries [35] (the reasons for which will be discussed later). The neo-classicals were of the opinion that there was a systematic bias against exports[36] in several countries during this period. A number of writers during the sixties pointed out that export pessimism was baseless and that supply factors including controls and mismanagement paved the way for poor export performance.[37] Little, Scitovsky and Scott argued in early 70s that a right measure towards export-led strategy would give positive results. Even the 'deterioration in the terms of trade' argument was challenged on the ground of being exaggerated.[38]

Citing the example of Korea and Taiwan, which had a labour-abundant export sector, some economists argued that a more open economy would increase the demand for unskilled labour.[39] This explains the neo-classical revival in the late sixties and seventies advocating free trade for third world development using the abundantly available cheap labour in these countries. This provides the guiding principle to the present-day export-oriented industrialisation of manufactured goods from the third world countries.

Trade and Industrialisation in the Marxian and New-left Literature

A more serious attempt was made by the Marxian literature to understand the relation between trade and development. Marx[40] was aware of the exploitative character of free trade under colonialism.* He insisted that in the wake of capitalist trade "a new and international division of labour, a division suited to the requirements of the chief centres of modern industry, springs up and converts one part of the globe into a chiefly agricultural field of production for supplying the other part which remains a chiefly industrial field".[41] Marx further held that neither ecology nor comparative advantage dictates the pattern of specialisation for an underdeveloped country engaged in free trade,but it is rather the requirements for the advancement of capitalist production in the developed country that decides the pattern of foreign trade of the underdeveloped country.[42]

Since the main concern of the early twentieth century Marxists like Lenin, Bukharin, Hilferding and Rosa Luxemburg was the phenomenon of imperialism, their analyses took serious note of capitalist encroachment on other countries. In

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*His views on this subject were reflected in the following statement: "If the free traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another". (See Marx, op.cit., p. 464, 465).

this respect Rosa Luxemburg made a detailed analysis of the impact of capitalist expansion on other countries.[43] She stressed the significance of external markets as a necessary condition for accumulation in capitalist countries. Luxemburg has the rare distinction of having made an indepth analysis of capitalist penetration to third world markets and the consequent disintegration of the pre-capitalist structures prevailing there, several decades before this became a matter of serious concern among the Marxists.

However, it was the dependency theorists who attempted to study third world industrial backwardness and the consequent underdevelopment in a historical perspective. Baran, Emmanuel, Frank and Amin are the chief proponents of this school. They argued that capitalist penetration into the economies of backward countries stifle the progress of industrialisation and capitalist development in the latter instead of promoting it. The underdevelopment in the backward countries is the consequence of the expropriation by the advanced capitalist countries of the economic surplus generated in the backward countries. The advanced countries use this surplus for their own development.[44] Among them, it was Amin who gave special emphasis on the export-oriented development pattern followed by the third world countries in the context of their overall industrial/economic backwardness. According to Amin, it is the export sector that plays a determining role in the periphery* in the creation and shaping of the market. All the economic activities in the periphery are centred around the exporting sector which is shaped according to the interests of capitalist economies at the centre.[45]

A distinguishing feature of peripheral economies delineated by Amin's work is their difficulty associated with capital accumulation, which he calls autocentric accumulation. Autocentric accumulation to which external trade is subordinated has been the hall-mark of all successful capitalist industrialisation. On the contrary, in the peripheral economies it is the export sector that plays the leading role, and all other economic activities - industrial, agricultural and other infrastructure - are oriented towards the export sector.[46] This leads to three major distortions in the development of peripheral capitalism in contrast to the development in the centre. They are: (1) a critical distortion towards export activities which absorb the major part of the capital arriving from the centre; (2) a distortion towards tertiary activities; (3) a distortion towards the choice of light industries where modern technologies are increasingly applied.[47]

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*'Periphery' refers to the third world country and 'centre' the advanced country. These phrases are widely used in the dependency literature, though they first appeared in the ECLA thesis.

A re-orientation of agriculture towards the need of the export sector may lead to a regression in agricultural techniques, a concentration of land-ownership and an increase in rent which dooms agriculture to stagnation, sometimes even to retrogression.[48]

Further retrogression occurs when local craftsmen are destroyed by the onslaught of manufactured goods from the centre. Amin contrasts this with the progress bfought about by the destruction of crafts in the centre. Whereas in Europe, society found a new equilibrium that ensured employment for its labour forces, what is observed here is a regressive equilibrium that casts a part of the labour force right out of the production system.[49]

Amin states that the initial distortion, which orients the peripheral economy towards export activities, brings in its train the 'hypertrophy' of the tertiary sector. In the periphery it arises because "of the limitations and contradictions characteristic of peripheral development; inadequate industrialisation and increasing unemployment, strengthening of ground rent etc. A fetter on accumulation, this hypertrophy of unproductive activities, expressed especially in the excessive growth of administrative expenditure, is manifested in the third world of today by the quasi-permanent crisis of government finance."[50]

The final distortion in the periphery's development is the culmination of all the others. Extraversion (export-orientation), unequal specialisation and a marked propensity to import combine to transfer the multiplier mechanisms connected with the phenomenon known as the "accelerator" from the periphery to the centre.[51] Amin cites three reasons for this: (1) the profits on foreign investments are exported, (2) wages are low while techniques are advanced, making it impossible to achieve an equilibrium between the capacity to produce and the capacity to consume; and (3) investment induced via the accelerator effect is absent in the periphery because the unequal international division of labour assigns intermediate branches of production to the centre. In short, the peripheral economies do not have the convergent mechanisms which can be called linkages in conventional parlance. They lack integration among the different sectors - which is termed as disarticulation.

Amin does not confine his analysis to those countries where extraversion is apparent. His analysis also extends to those countries which experimented with import-substitution industrialisation from the thirties itself. According to Amin "with import-substitution industrialisation extraversion assumes new forms".[52] The generalising of the pattern of import-substitution industrialisation opened up new opportunities for foreign capital without essentially affecting the extraversion of the economy. It was the same monopolies that exported commodities to overseas countries that invested capital in those countries. Beginning with the production of consumer goods that had previously been imported, the peripheral country was content to replace these imports by imports of capital goods and intermediate goods. An autocentric strategy must base itself simultaneously upon the production of consumer goods and capital goods.[53]

The transnational firms which appeared after the Second World War were the major agents of import-substitution industrialisation in the peripheral countries. The transnational firm is characterised by the scattering of its production activities across the world thus realising a model of vertical integration that is often total. At the centre are gathered the strategic activities (technological research, innovation, management), the "grey matter" in one form or another, and the production of the most complex types of essential equipment, those that require highly skilled labour. To the periphery falls the "software" - the production of those elements which, given the help of imported equipment, requires only unskilled or semi-skilled labour. The old division of labour in which the underdeveloped countries supplied the raw materials and the advanced countries supplied the manufactured goods, is being replaced by a different order in which the former supply the primary products and the manufactures, while the latter supply the equipments and the "hardware". This division reinforces the functions of the centralisation of decision making authority and technological innovation. Thereby it produces its own conditions, splitting the world labour market into watertight national markets with big differences in rewards.[54] The crux of Amin's arguments can be summarised as follows: "It is the distortion toward export activities that constitutes the main reason" for the economic/industrial backwardness of third world economies.[55]

The credit of analysing historically the impact of capitalist penetration into the underdeveloped countries certainly goes to the dependency school of thought. They have established on sufficient ground, how colonialism played a major role in blocking development in the third world countries, how export-orientation has become a characteristic feature of these countries and the way in which this has prevented the natural development of the productive forces there.

The major criticism against the dependency theory is the overemphasis given to only factors external to the underdeveloped economies for all their maladies.* There is

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*For a good discussion on theories of dependency, See Charles A. Barone, op.cit.

no adequate analysis of the internal factors that must have also played a part in blocking the development/industrialisation of the third world countries.

The approach of the dependency theorists to the question of development was criticised by a group of writers called the 'Mode of Production Theorists'.* Their major line of reasoning is that the dependency theorists neglect the role of internal dynamics in shaping the socio-economic structure of third world countries. According to them the role of the internal factors is more crucial in blocking capitalist industrialisation in these countries. While Dore and Weeks identify "the immediate barriers to capitalist accumulation as not external, but internal - the persistence of pre-capitalist formations",[56] Petras postulates that imperial state in conjunction with the peripheral state mediates the distribution of resources and income in favour of those classes opposing the labouring or marginal groups.[57] In Brenner's view, the external orientation of the national bourgeoisie, the lack of effective demand and the outflow of surplus are symptoms (rather than causes of underdevelopment) of an underlying class structure and mode of exploitation that is

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* In the works of 'Mode of Production' theorists, emphasis has been given to the importance of class structure and mode of production in shaping each country's socio-economic formation. Dore and Weeks, Charles Brenner, James Petras, Anwar Shaikh all belong to this school. (See Charles A. Barone, op.cit.).

inconsistent with the progressive development of capitalism and the expanded accumulation of capital. The ruling sections in industrially backward economies always try to squeeze the direct producers by lowering their subsistence level. Since this diminishes or limits the market for both consumer and capital goods, internal investment opportunities are limited.[58] "The articulation of modes of production shows that capitalism in the 'neocolonies' is articulated with precapitalist modes of production and that the transition to capitalism is incomplete rather than underdeveloped".[59]

Attempts have been made to synthesise the dependency and mode of production theories. Ronald H. Chilcote, Ronaldo Munck and others are the advocates of such a synthesis. Chilcote observed that while dependency theory raised new questions, placed old issues in new perspective, mode of production analysis opened the way to indepth research on modes and relations of production and understanding of concrete situations.[60]

As indicated earlier, the different views on the role of trade in economic/industrial development provide the necessary building blocks for the formulation of a relevant framework to understand the topic under discussion. The classical and neo-classical explanations of trade as an engine of growth have been questioned and found contrary to facts even by the conventional economists. They have emphasised the quantitative aspect of trade-development relationship, while the qualitative aspect was ignored.

B. Third World Industrialisation in a Historical Perspective

By the end of the nineteenth century the world was drawn together in an international network where trade was the connecting link between the developed and underdeveloped countries.[61] In other words, most of the underdeveloped countries of Asia, Africa and Latin America were made colonies of the industrialised countries, (mostly Britain) and trade was the main vehicle of exploitation in the hands of the industrialised countries.

Trade helped to create consumerism in the colonies. It stimulated the growth of a money economy and capitalist financial institutions. More importantly trade stimulated primary production.[62] Whatever economic development occurred during the colonial period, was mainly in production for export and in a few consumption goods industries producing mostly for the home market.

Much of the capitalist penetration from the West took place in the plantation and mining sectors. In accordance with overseas demand, the colonies were compelled to specialise in those cash crops for which their soil and climatic conditions were particularly suited. For this, a combination of incentives, sanctions and even threats was used by the colonial powers.[63] India, Indonesia, Egypt, etc. were made to specialise in cotton, West Africa in vegetable oils, the Caribbean in sugar (and cotton), all the three continents in beverages (coffee, cocoa, tea); South and South-East Asia and the Americas in foodgrains.[64] Most of the countries of Asia, Africa and Latin America were thus developed as 'mono-crop' economies producing primarily for exports.

The characteristic features of the colonies were the following:

1. The main economic activity was agriculture.
2. A thriving export sector existed along with the subsistence sector, without much interaction with the other economic activities.
3. Industrial undertakings were confined to simple processing such as textiles, soaps, canned food, etc. meant for local consumption.
4. Most of the firms were owned by the foreigners. There was no reinvestment within the domestic economy, resulting in profit repatriation on a large scale.
5. Most of these countries showed a trade surplus - excess of exports over imports - due to the presence of foreign factors.[65]

The available evidence indicates that the colonies continued to be export-oriented till the 1930s. It was the Great Depression and the resultant slowdown in trade that compelled most of the colonies to search out other avenues of development. With the outbreak of World War II the foreign markets that were already shrinking, got almost lost to the colonies. Thus import-substitution industrialisation (ISI) became the major strategy of economic development in most of the third world countries during the forties, fifties and sixties.*

It was in the wake of the failure of ISI strategy,** that there was a move towards the strategy based on manufactured

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*For a good discussion of the experience of ISI of the third world, see Martin Landsberg: "Export-led Industrialisation in the Third World: Manufacturing Imperialism", RRPE, Winter, 1979.

**Both the neo-classicals and structuralist-dependency theorists have given their own explanations for the failure of ISI. According to the former, industrial activities established under ISI often produce at higher cost than competing imports and are dependent upon protection from foreign competition for their survival. Market concentration is typically high, and productive capacity is frequently capital intensive and under-utilised. It also discouraged the export of both primary products and manufactured goods. The dependency theorists explained ISI failure in terms of the pre-existing pattern of the ownership and control of the means of production and by the social relationships associated with these different ownership patterns. See C.H. Kirkpatrick, et.al., "Industrial Structure and Policy in Less Developed Countries," 1984, pp. 197 - 198.

exports,during the sixties. As the debt position of most of the third world countries worsened, exports increased considerably. While in the past, the major exports were primary commodities to the developed capitalist countries, now the exports of manufactures became predominant.[66]

Central to the growth of third world exports of manufactures to the developed countries was "International Subcontracting".*[67] The term refers to "a relationship whereby, in order to cover markets in an advanced capitalist country transnational corporations arrange to use third world firms to produce entire products, components or services..... Regardless, the TNC will always control final marketing of the product and, more often than not, provide technical assistance, management, loan capital and physical equipment for the subcontractors".[68]

In this context, the much-celebrated industrialisation experience of the Newly Industrialising Countries (NIC) also

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*'International Subcontracting' is otherwise known as "Offshore assembly" or "Sourcing". The background of the growth of international subcontracting: the growth of new labour-intensive manufacturing industries like electronics and light manufacturing. With improved air freight,containerisation; and telecommunication, TNC's could despatch products and components quicker, cheaper, and faster. The second reason is capitalist rivalry. The threat posed by Germany and Japan by the mid-sixties with their relatively cheap labour, more government assistance and more modern plants and equipments was met with the U.S. by the system of international subcontracting. The third reason was the growing internal class pressures and struggles. (WDR, 1987, p.46, also Landsberg, op.cit.).

deserves mention. South Korea, Taiwan, Singapore, Hong Kong, Philippines, Indonesia etc. belong to this category. The function of the NICs in the world system is that of international subcontractors. It is the labour-intensive part of the processing that is left to the NICs. The production which is usually undertaken in these export platforms are those of semi-conductors, electrical products, small machines, machine tools, cameras, clothing, sporting goods, toys and wigs which are labour-intensive.[69]

It is the cheap labour available in these countries that attract the TNCs to subcontract the labour-intensive production processes to the NICs.* Besides,the socio-political factors prevailing in the South-East Asian countries are also favourable for the TNCs to follow the system of subcontracting.

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* Average Labour Cost in Selected Asian Zones

($ per hour)

Countries	Year	Electronics	Garments
Hong Kong	1980	0.97	1.03
South Korea	1980	0.91	0.59
Malaysia	1980	0.42	--
Philippines	1978	0.30	0.17
Singapore	1980	0.90	0.80
Sree Lanka	1981	--	0.12
India	1983	0.17	0.20
Japan	1980	5.97	3.56
U.S.	1980	6.96	4.57

Source: L.M. Rodricks, op.cit., p.80.

Salient socio-political characteristics of these nations are their smallness, their military regimes and the political supremacy of the U.S. over these countries. Moreover, government policies such as tax exemptions, duty-free imports and strict labour laws have been conducive to export-led growth in the NICs.[70]

The Export-Oriented Industrialisation (EOI) is supposed to provide solutions to three major problems: 1) creation of jobs and reduction of unemployment; (2) training of a skilled industrial labour force and transfer of technology; and (3) an increase in foreign exchange inflows with the resultant easing of balance of trade and balance of payments crisis.[71]

Available evidence has belied the benign results attributed to this strategy of export-oriented industrialisation. Let employment generation be considered first. The MNCs have shown a strong preference for women workers. Further, there is considerable instability and insecurity of employment. This means that these firms do not attack the main unemployment problem which is most severe among young male labour.*[72]

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*In Hong Kong, in 1967, 47 per cent of the manufacturing work force was female. In Singapore, the figure stood at 44 per cent in 1971. In 1978, women comprised 25 per cent of the total Taiwanese work force. (See Clive Hamilton, "Capitalist Industrialisation in East Asia's Four Little Tigers". Journal of Contemporary Asia, Vol. 13, No.1, 1983).

As far as the second aspect is concerned, the foot-loose character of the export-oriented industries and their consequent temporary nature make the NIC employment quite unstable. If a labour movement ever seemed to develop in one of these countries, the business could easily be shifted to another.[73] Since the late seventies, the MNCs have begun to transfer the labour-intensive assembly work from Hong Kong, Singapore and Taiwan to countries like Philippines and Thailand where the labour cost is still lower.[74] The closure of many units and lay-offs due to general business slowdown have made employment in these industries very insecure. For example, between 1974 and 1975 overproduction of semi-conductors led to a large-scale retrenchment of workers in many Asian countries. It was estimated that a total of 15000 electronics workers were laid-off in Singapore alone.[75]

The comparative advantage of the NICs lies in the lower wage rate offered to the MNCs and, as such, the NICs compete among themselves to lower the wage rate, ban trade unions and implement other repressive labour laws, which are easy under military dictatorship.[76]

The transfer of technology argument is inconsistent with the very logic of subcontracting. It is often the labour-intensive part of the work that is taking place in these countries; the capital-intensive part is generally carried out in the developed countries. So it is very unlikely that a third world country will be able to establish forward and backward linkages to produce the entire product, or upgrade the skill levels of its labour force.[77]

Regarding the last goal, viz., the inflow of foreign exchange, it also is not that simple as the proponents of the EOI strategy argue. As a study has found out, "industrialisation in these countries (NICs) should not be seen simply as a process of expanding export industries for their own sake, since industrial growth has been extremely dependent on imports. The exporting firm is very often an importing firm as well. The direct import content of South Korea's exports was about 42.5 per cent in the 1967-73 period, according to the Ministry of Finance. The circular nature of this is nowhere better illustrated than in Hong Kong where, it is estimated, in recent years 95 per cent of manufactured output has been exported. The shift from re-exports to domestic exports has not markedly diminished import-dependence.[78] The leakages of foreign exchange must be much higher, when the royalty fees, technical fees, the system of transfer pricing etc. are taken into account.

There are strong reasons to doubt whether EOI as practised in the South East Asian countries is capable of bringing about a sustained industrial development. Competition in the world market demands efficiency and quality and this in turn demands imported capital, intermediate goods, technology and skills. This is harmful to indigenous and self-reliant industrial development. According to writers like Joan Robinson,[79] EOI has nothing more to offer than temporary relief for the rulers of the third world to impress the people with some statistics such as increase in the index of industrial production, rise in the export of manufactured goods, increase in employment generation etc.* The underlying philosophy of the MNC - fostered EOI has nothing to do with a capitalist type industrial development, but "is more akin to the putting-out system in textiles which was adopted in pre-industrial England".[80] **

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* As Joan Robinson commented, "For the authorities in many countries overwhelmed by unemployment, this (EOI) certainly appears better than nothing, but it is obvious that this kind of business cannot lead to a self-reliant national development". (Joan Robinson, op.cit., p. 119-120).

**The World Development Report observed that with modern transport and Communications, it probably is no more difficult for today's merchants to organise a puttingout system between New York and Hong Kong, or between Tokyo and Seoul, than it was for the early English merchants to organise their putting-out system between London and the Surrounding villages. (WDR, 1987, p. 46).

In short, on account of the failure of import-substitution industrialisation a number of countries began to adopt the export-oriented industrialisation strategy. But this strategy prescribed as the remedy for third world industrial backwardness was only another mechanism through which TNCs attempted to enforce a new international division of labour.

Our discussion above provides the necessary raw materials to work out the link between export-orientation, disarticulated development and industrial backwardness, and it is to such an attempt that we turn below:

Export-Orientation and Disarticulated Development

An economy can experience overall economic development, only if a stimulus to a particular sector can effect a corresponding boom in the others, through a system of intersectoral linkages. In such a model the productive sectors lead the economy, industry and agriculture support each other, infrastructure directly caters to the development of industry and agriculture, and results in the progress of the entire economy. In a typical export-oriented economy, this kind of a complementarity among the different sectors is absent. Instead, it experiences a disarticulated development. Disarticulation can be noticed within the industrial sector, agricultural sector, transportation and between agriculture and industry.

Within agriculture, disarticulation is manifested in the independent existence of the food crop sector and the cash crop sector. Colonial capitalism was naturally interested only in the most profitable primary commodities. To obtain an adequate supply of the preferred commodities, it was sometimes necessary to discourage the production of some other commodities. To achieve this, the colonial authorities used persuasion or force to compel a concentration of effort on the production of particular export crops. This upset the balance of the traditional economy. For, it was often at the expense of the traditional food crops sector that the exportable cash crops were encouraged. Also, this sort of changes resulted in the shortages in the supply of food articles, displacement of people and shifts in population, the uneven development of different regions etc.[81]

Regarding the industrial sector, the traditional type of industrial activity was of a most rudimentary nature. Food and beverages, tobacco, base metal, nondurable consumer goods, textiles, basic chemical products, building materials, furniture, leather and leather products etc. were the major traditional industries. The traditional industrial sector which was mainly catering to home consumption used indigenous methods of production which were backward. A modern sector (plantations, mines etc.) existed side by side with the traditional sector, using foreign capital and producing basically for foreign markets. These two sectors remained juxtaposed. As the foreign investors were only interested in the surplus generated from the colonies, they never bothered to set up related industries. On the other hand, owing to certain limitations of the indigenous investors, the traditional sector was incapable of developing into higher stages of production.

The history of the Western industrialised countries underlines the importance of an organic relationship between the agricultural and industrial sectors. That is, agriculture and industry provide a market for each other's product, thereby facilitating the expansion of one another. The agricultural sector can provide with food and the surplus labour to industry, and industry in turn supplies, better agricultural implements, machinery, fertilizers, building materials etc. Also, agriculture can supply the investible surpluses for the establishment of industry and in turn, be a market for the finished goods of the industrial sector. For the self-sustaining development of any economy, this type of a complementary relationship between the two sectors is essential.[82]

The experience of the third world countries was much different from the ideal situation of industry-agriculture relationship. Both the sectors could not assist each other in development, as both were equally integrated to the world market. The export of foodgrains, for example, could never mean a surplus after indigenous use, but only meant starvation and high foodgrain prices for the local people. The Indian experience deserves mention in this regard. By the end of the nineteenth century, India became a source of food for the metropolitan countries. Indians were half-starved in order to export food.[83]

As for employment, the surplus agricultural labour-force could not be absorbed in the industrial sector due to its underdevelopment. Also the surplus generated in the agricultural sector was not channelised to the industrial sector in the absence of an independent indigenous entrepreneurial class.[84] In fact, in most cases, the agricultural surplus got into the foreign hands by virtue of their ownership and control over land and export trade.

Disarticulation is further visible in the transport system where ports, railways and roads all developed serving either export trade or military needs under the colonial rule. The haphazard development of the transport system is amply brought out by the nature of the railways and ports. They did not constitute in any colony a coherent system of communications. They were built ad-hoc according to the metropolitan interests of the moment and the availability of funds.

Even the location of ports and railways was determined by the location of the exportable commodity. The railways started from the hinterlands where the particular product was grown or produced and, terminated at a port of exit.[85] As if to emphasise the fact that the railways were purely functional for gathering and exporting the commodities of the colonies, the Germans in Togo actually named their railway lines after the particular primary commodities and minerals which they were supposed to transport. Thus there were the cotton line, the cocoa line, the coconut line, the iron line and the palm-oil line. Similar was the case with Congo, Sierra Leone, Guinea, Liberia, Mali and Senegal and Mauritania.[86] "All these railways were directed to the coast, with no links between them, of different gauges so that a rationalisation of the railway system of West Africa today is impossible."[87] The same was true of the road system. In West Africa, the road system happened to be adjuncts of the railways.[88]

To take the case of India, the construction of railways had one of its major goals in getting access to the hinterlands of Indian villages and collecting the agricultural products, minerals etc. to the West.* India's railway system converged to a few large ports and commercial centres in order to facilitate overseas trade and troop mobilisation. This had tended to concentrate the bulk of India's foreign trade on a relatively small number of ports. In fact, over 90 per cent of the total foreign trade of India passed through the five premier ports; Calcutta, Bombay, Karachi, Rangoon and Madras,[89] (which later became the source of further disarticulation of uneven regional development).

The disarticulation between agriculture and industry, the over proportionate growth of the tertiary sector, uneven development of different regions etc. continued or even aggravated during the post-colonial period. By the time of independence, the colonial economy had attained a certain level of maturity. Its structure was firmly set and could not easily be changed. The fully formed economy that it inherited engendered a certain logic and imposed certain rigidity on the course of future development, and this logic was essentially one that favoured the persistence and even the reinforcement of the syndrome of disarticulation.[90] In the absence of a structural

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*The then nationalist leaders were aware of the critical role that the railways was going to play in India. According to Gokhale, "The Indian people feel that this construction is undertaken principally in the interests of English commercial and moneyed classes, and that it assits in the further exploitation of our resources", cited by Bipan Chandra, op.cit. p. 171.

transformation of the third world countries, it is only natural that all the distortions inherited from the colonial period tended to continue during the post-colonial period also.

The concepts, export-orientation, disarticulation and industrial backwardness are so intertwined that it is difficult to identify the causes and effects of each of them separately. In other words, each one acts as the cause and the effect, creating a vicious circle, In short, the limited resources of the country are diverted to the export sector from the more important ones, viz., industry and agriculture. Even where the export is based on the industrial sector (like the South East Asian countries), it seems to be dependent industrialisation incapable of self-sustaining capitalist industrial development. The disarticulation caused by export-orientation and dependence, in the absence of the convergent mechanisms, eventually results in the blocking of overall economic/industrial development of the third world countries.

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Chapter III

EVOLUTION OF EXPORT-ORIENTED INDUSTRIES IN KERALA DURING THE COLONIAL PERIOD

As is common knowledge, most of the countries of Asia, Africa and Latin America remained as export-oriented economies within the framework of international division of labour, where they were assigned the role of suppliers of raw materials. They invariably constitute the underdeveloped countries of today. Against this background an attempt is made in this chapter to examine the evolution of industries in Kerala during the colonial period, and in particular their export-orientation and the consequent distortions that came about in the economy. A brief discussion of the specific features of the economy on the eve of colonial invasion is important in order to understand the changes that were brought about by colonialism.

1. Economy During the Eve of Colonial Invasion

An understanding of the social and economic structure of Kerala on the eve of the colonial period is necessary to gauge the impact of colonialism on the region's economy. This will also help to identify the factors specific to the region which played a crucial role in shaping the economy as an export-oriented one.

Kerala consisted of a number of principalities which were competing with each other. Unlike the other Indian Kings, the kings of the different principalities of Kerala were very weak in terms of economic as well as social power. There was no land-tax in Kerala which could have been the main source of royal income, as in other parts of India. This is because land was mostly owned by Nambudiris, the most powerful caste in Kerala and, the land owned by them was tax-free. There was another major caste, the Nairs, who constituted the armies of the Malayali rulers. They commanded high power and prestige as they owned both land and power as chieftains. This land was also tax-free. Now the only taxable land was that of the rajas themselves and rented out to lower-class Nairs, Christians and Muslims. "Malayali rulers would have had direct financial control only over those Nairs and other tenants who resided on these rulers' janmom lands, for all janmis appear to have been exempted from any regular taxation prior to the late eighteenth century . . . . The Malayali rulers' failure to tax agricultural land itself explains why they were so eager to encourage the growth of commerce".[1] Thus the absence of land-tax in Kerala forced the Malayali Kings to rely on other sources of income. They raised income through the export of spices which accounted for considerable foreign trade.

The rigid caste system as followed in Kerala had very significant implications as far as the economy was concerned. Neither the Nambudiris nor the Nairs were involved in any kind of productive economic activities. They were mere land-owners and 'janmis' (feudal lords) living on the surplus generated from the land. The actual labourers were the untouchables, mainly the Pulayas who belonged to the lowest strata of the rigid caste system. Under this caste system, there was no trading class. This gap was mainly filled in by the Christians and Muslims.[2] But even the Christians and Muslims were engaged only in internal trade. The external trade which was very prosperous was mainly in the hands of non-Malayalis such as the Vanias, the Chettis and the 'Paradesi'* Muslims.**[3] This caste rigidity which inhibited the Nambudiris and Nairs from engaging in agriculture or trade was in action throughout the following centuries, until the twentieth century. The dependence on foreign trade in the absence of the land tax and the lack of control over foreign trade due to the absence of a nascent trading class were two marked features of pre-colonial Kerala.

*'Paradesi' means foreigner, came from West Asia and settled here to carry out foreign trade.

**The Chettis traded in precious metals, and jewels, the Vanias dealt in goods of every kind from many lands and the 'Paradesi' Muslims specialised in the immensely profitable spice trade between Kerala and West Asia (Dale, op.cit).

The tiny fragmented nature of different principalities and the internal rivalries among the kings eventually led to the Portuguese, Dutch and Mysorean invasion. The Portuguese and the Dutch were after the spices of the Malabar coast. But the Mysorean motives were a bit different, one of them being the extraction of revenue from the lands and for this, they introduced for the first time in Kerala, a comprehensive land revenue assessment.[4] By 1800, Travancore, Cochin and Malabar got integrated into the British empire.

The economies of these three regions were more or less similar in nature. Agriculture was the main occupation of the people. Manufacturing activities were confined to cotton-weaving, salt-making, boat-building etc. The method of production was so primitive that the requirements of the people were the minimum. Fra Barthalomew who visited the Malabar coast in 1776-1789 observed that in Quilon there were "a great many weaving looms as well as many factories of cotton and stoneware. Various articles of household furniture were also made here of Ayani, Benga, Teke, and Bith wood".[5] Several varieties of clothes were manufactured at Kottar, Balaramapuram, Chirayinkil, Panthalam and some other places. They were consumed in the neighbouring towns.[6] The manufacture of salt was one of the oldest industries of Travancore.[7] Though trade and commerce assumed some importance with the arrival of

Portuguese in the Sixteenth century they acquired economic significance in the region only after 1750 A.D. when Marthanda Varma established the kingdom of Travancore by annexing many erstwhile autonomous principalities. He organised a commercial department and nationalised the entire trade in pepper, tobacco, arecanut, and other cash crops.[8] It should be noted that Travancore was the first state to nationalise trade in commercial crops.[9]

At the time of the advent of colonialism, the economy of Kerala remained predominantly an agricultural one. Trade had assumed certain significance, while no signs of a capitalist development were to be noted in the industrial sector.

2. European Enterprise and the Beginning of Industrial Activities

With the advent of the British rule in the early years of the nineteenth century, trade and commerce assumed greater importance in Kerala economy.[10] The policies of Marthanda Varma conducive to trade were further given a boost by his successor Dharma Raja. During the reign of Dharma Raja, the port of Alleppy was given a face lift and merchants were invited from various places to set up trade at the new port. Among them were the Cutch, and the Sindhis (cloth merchants from Trineveli), the Chettis, Konkanis, Jews, Muslims and Parsees all of whom mainly engaged in export trade.[11]

It was only during the second half of the nineteenth century that there occurred sudden and visible changes in the economy of Kerala. Changes in the spheres of education, administration and agriculture occurred during the first half of the nineteenth century, turned out to be preparatory for the later 'modernisation' or 'commercialisation' of the economy.[12]

"In every region of India the period from about 1850 to 1910 was one of striking change. . . . . Perhaps nowhere in India were the changes of these years so dramatic or so little known as in Travancore",[13] observes Robin Jeffrey. This dramatic change in the economy was the direct effect of British investments in plantations, coir and tile industries during this period.* The investments made in Kerala were in consonance with the experience of other parts of India where "early British investment was in extracting industries like mining, plantations and agro-processing which were all within the framework of a dependent relationship".[14]

In this context it is necessary to note the interaction of a host of external and internal factors which went into the shaping of the economy of Travancore. Of the external factors, the following need special mention: 1) The discovery of gold mines in U.S.A. and Australia in the early 1850s which resulted in the expansion of foreign trade, with a number of far off

*In this context, it should be noted that any kind of capital invested in this region during this period was those of Europeans.

countries including British India and Travancore, (2) A rise in demand for labour both skilled and unskilled in British Indian Provinces and the Overseas British territories like Ceylon and Mauritius opening up new vistas for employment for the Travancoreans, and (3) The opening up of Suez Canal. The internal factors were (1) The threat of annexation of Travancore by the British Government, (2) The abolition of slavery and of the custom of compulsory and gratuitous services, and (3) The severe draught of 1860-61.[15]

These external as well as internal factors did play a significant role in setting the stage for the entry of European capital into the region.

The Evolution of Coir Industry

An important area into which foreign capital penetrated was the coir industry. The first coir weaving factory was set up in 1859 by one Mr. James Darragh at Alleppy.[16] Till that time, coir fibre was exported to Calcutta and from there it was processed and re-exported to foreign countries. Information regarding the developments in the coir weaving industry during the period 1850-1900 is very limited. However the available fragmented evidence indicates that this industry was organised in large scale of concentration of production and wage labourers.[17] As the local people were inexperienced (unskilled) in coir-weaving, they were given training under a master weaver from England.*[18] Subsequently coir factories came up in other coastal towns such as Colachel, Quilon, Cochin and Calicut as well. The factors responsible for the expansion of this industry in Kerala were the availability of raw materials, cheap labour and the proximity to ports.[19] The rapid opening up of foreign markets gave a shot in the arm of the industry. Above all was the encouragement from the Government of Travancore by releasing land on concessional terms to the coir factories.[20]

The coir-weaving industry was the best example of how the unskilled and cheap labour of the colonies were exploited by the colonial powers. While the European coir factories adopted powerloom weaving, the Kerala ones used handlooms. Still the Kerala factories could compete with the technologically advanced British counterparts because of the availability of cheap labour in Malabar coast.[21] From the beginning, this industry remained an export-oriented one. The extent of export-orientation is very well reflected in the following observation: "The export of coir fabrics on which the Malabar coast was dependent for its survival, on the whole, fluctuated at a low level".[22] Exports of coir products of Travancore

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*In England, the industry had been established a quarter of century earlier, and subsequently had even spread to America. (Thomas Isaac, op. cit.).

rose from Rs.9.27 lakhs in 1871 to Rs.26.22 lakhs in 1891 and to more than one crore in the forties. The coir weaving industry which was among the earliest European enterprises was to have far-reaching implications for the economy of Kerala which will be discussed elsewhere.

Tile Industry

The tile industry owes its origin and development on a commercial basis to the initiative of the Europeans. Strictly speaking it was the Basel Missionary Society which established the tile industry first in 1865 at Mangalore, at Calicut in 1873 and at Quilon in 1880.[23] The Basel Missionaries were backed in their industrial ventures by a large joint-stock company of Switzerland which supplied the necessary finance and expertise to run these factories. The profits from this industry were very high which was the main attraction for the entrepreneurs to take to this line.[24]

The main markets that this industry catered to were those of foreign countries. It had a very limited local market and much of the output of this industry was exported.[25] The export-orientation of this industry is manifested in the setting up of these industries in places like Mangalore, Calicut, Quilon etc. where port facilities were available.

It should be noted that tile industry in Kerala was a centuries-old profession catering to the local market.*[26]

Factory type production using a comparatively high level of technology and catering to external markets was the hall-mark of the tile factories of the Basel Mission Society until the First World War. What is striking is that the factory-type, technology using (steam-power-using) mission industries existed side-by-side with the traditional industries using bullock power for a long time until the 1930s. This is a clear example of the co-existence (dis-articulation as Samir Amin calls it) of both traditional and modern (in a restricted sense) sectors, as two water tight compartments.

British Investments in Plantations

It was by the introduction of plantations that the economy of Kerala got a fillip in all respects. Though Kerala had trade in exotic items with many foreign countries "Travancore had no tradition of large gardens devoted solely

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*There was reference to the tile industry by the Portuguese traveller Durate Barbosa during 1510-31 who observed: "Their (the potters') business is to work at baked clay and tiles covering houses with which the temples and royal buildings are roofed and by low no other persons may roof their houses except with palm branches". (Jaiaprakash Raghaviah, op. cit., p. 38).

to export crops"[27] until the nineteenth century. Coffee was the first to enter into Travancore on a plantation basis.*

The favourable agro-climatic conditions, the decline of coffee industry and the availability of cheap labour were the major factors that accounted for the growth of tea plantations in Travancore. Further, the government followed a rather liberal policy towards the plantations. The land lease policy was quite favourable to the planters. For the first eight years the lessee of forest lands had to pay eight annas per acre per annum and from the commencement of the ninth year the rate of payment increased to Rs.1.50 per acre per annum and from the twelfth year onwards it was Rs.2/- per annum. The charges were to be paid on the whole land regardless of the planted acreage or yield therefrom.[28] The government's liberal attitude towards the plantations was even manifested in the construction of roads from the Ghats to the ports. It spent Rs.2.21 lakhs on roads, road-building subsidies to planters and surveys.[29] The planters also enjoyed other kinds of protection from the government. For instance,

*In the late 1830s, when the price of coffee was rising rapidly in the U.S. an Englishman William Huxham began planting coffee on the hills east of Quilon. Six coffee estates were opened by 1863 in the Ghats as a result of a road from Kottayam to the Western Ghats. (Robin Jeffrey, op. cit., p. 98).

the Workmen's Breach of Contract Act of 1859 had provisions stipulating that the workers had to sign a contract agreeing to work in the tea plantations for a specific period of time. As the labourers were mostly from the famine-hit Tamil Villages, it was rather easy to set up isolated enclaves with very low wage rate in the plantations. The plantation sector was hundred per cent export-oriented as is quite characteristic of colonialism.

Together with the growth of plantations and other export-oriented industries, there could be observed the development of some institutions catering to the needs of export sector. The important areas that came up in relation to export trade were transportation, banking, managing agency system and educational institutions.

a) <u>The Evolution of Transportation</u>

When we consider the immediate impact of foreign trade on the economy, that strikes one first is the impact on the transport and communications sectors. In this respect, Travancore was no exception to the rule that development of transport facilities in colonies was to facilitate trade or troop movements. As is evident, "with the growth of large-scale cultivation of commercial crops like rubber, tea, cardamom and pepper in the High Ranges of Travancore, roads and road transport connecting Cochin and Alleppy ports to Munnar - Peermade range in the eastern hills were developed".[30] The creation of a Public Works Department itself was in requirement with the increase in trade. "It (Public Works Department) aimed at the exploitation of the trade and agricultural potential of the state".[31] There can be noticed a subheading titled 'planters' roads' in the Administration Report of Travancore which points to the importance that plantations acquired in Travancore. What all road works undertaken during the late nineteenth and early twentieth century were all intended for the transportation of plantation products, as is evident from the administration reports of Travancore.[32] About Rs.17.39 lakhs of rupees were spent by the Chief Engineer's (P.W.D.) Department in 1900-01, most of which was on the planters' roads which constituted nearly 20 per cent of a total state expenditure of Rs.95.84 lakhs. What becomes pertinent is that the evolution of transportation was in close association with the growth of plantations and for this, there was sufficient support and encouragement from the government.

b) <u>Managing Agency System</u>

The increase in export-import trade and the related necessities for trade such as import of machinery, marketing network, capital requirements, consultancy services, etc. resulted in the emergence of what is called the 'Managing Agency System'. In the first phase of plantation cultivation the nature of ownership was mainly of single proprietorship. But soon the planters found it difficult to find the necessary capital and other related arrangements which was a vast interrelated system. "Merchant capital entered into the Kerala tea plantations at a time when the individual planters were not able to cope with the organisational and financial requirements of a changing world economic order. The Coastal Firms in Kerala that increasingly entered into the plantations were already engaged in the trading of coffee, pepper and copra. In the new set up, the pioneer planters had to depend on a gamut of arrangements interalia bankers, shippers, and suppliers of general stores, etc. This opened up possibilities of joint-stock companies entering the field of plantations. The institution called the 'managing agency' became active in Kerala during the coffee era to provide various services to the plantation owners, viz., the processing and storage of coffee, sales arrangements, shipping, insurance and the procurement of estate supplies etc. Towards the end of the nineteenth century, the British managing agencies expanded their activities which included supply of tools, and implements, manure etc., budgetary control and cultivation and manufacturing advice and also acted as shipping and sales agents for the produce and as secretaries and attorneys, etc. on behalf of the board of directors. Under the managing agencies, many of the small companies began to be consolidated".[33]

This kind of a vertical integration of the British trading firms had a detrimental effect on the economy of Kerala. The entire export-import trade was handled by these British Coastal Firms. Their interests were not confined to the plantation products alone. They had monopoly over the trade in coir products, tiles, coconut products and others. The natives had to be content with the role of middle-men or subtraders. Though no statistics relating to the amount of profit that had been repatriated by the foreigners are available, indications are such that they made huge profits. "With no direct involvement in production, the 'West Coast Vultures' as the Coastal Firms were at times described by the planters, sucked away the surplus through their control over the financial and market networks".[34] The control over export-import trade was enough to control the whole economy as the whole economy was so much dependent on trade. Even products like coconut oil which was produced by the nascents or other Indians and marketed in British India, had to go through the hands of the Coastal Firms.

c) <u>Evolution of Banking</u>

All these years, a corresponding development was taking place among the nascent trading class; the rise and growth of banking. The expansion of trade and related activities necessitated accumulation of money in the hands of the sections who handled the internal trade and those engaged in plantation activities. The kuries and chitties run by the churches from earlier times were a major factor conducive to the evolution of banking in Kerala.[35] The first organised commercial bank in Travancore was formed in 1893 called the Travancore National Bank by a Travancorean family.[36] In this context, it is worthwhile to mention that the evolution of banking was mostly associated with the Christian community, who were also the main participants in large-scale plantation and trading activities.[37] Any way, it was the expansion of trade during the late nineteenth century and the early twentieth century that provided the stimulus for the growth of banking.

d) <u>Education and Occupational Structure</u>

Another major impact of the growing export-import trade was on educational and the occupational structure. During the first half of the nineteenth century itself, some reforms were made in educational sector under the Royal Rescript of 1817 and with the changes made in the charter of the East India

Company in 1813.* But it was with the growth of plantations and trade that education in Travancore really expanded. "The demand created by the commercialised agricultural economy in Travancore was for basic literacy skills and doing basic arithmetical exercises".[38] This was so because, most of the job opportunities created by the plantation companies, private trading houses and government service were for clerical posts. The motive of getting into government service did ensure more admissions to schools and greater literacy especially in Malayalam. In due course, government service and similar jobs became the focus of education in a society which did not provide any other alternative to agriculture. This resulted in education in Travancore remaining largely a liberal arts education.[39]

The commercialisation of the economy had certain repercussions on the occupational structure also. The number of people engaged in internal trading activities increased with the increase in external trade. The setting up of a Public Works Department in response to the increase in trading activities, resulted in the creation of job opportunities for

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*Through the Royal Rescript of 1817, the Rani accepted the responsibility of assisting village schools, with the consent of Resident Munroe. With the changes made in the charter of the East India Company, missionary initiative in the field of education was accepted and encouraged. (Michael Tharakan, op. cit.).

the lower castes. The managerial and clerical posts in the plantation sector were mainly for the educated Christians of the region. Nairs and the non-Malayali brahmins were increasingly absorbed into the government service due to their influence on the government.* A section of the Ezhavas also got employed in the coir industries which were flourishing in Alleppy.[40]

Thus, by the early twentieth century, with the development of the export-oriented plantations, coir, tiles, copra, coconut-oil industries and with the growth of the related institutions catering to export trade, the economy acquired a certain structure which was characteristic of a typical export-oriented colonial economy.

3. Importance and Major Features of Export Trade of Travancore During the Colonial Period

Here, an examination of the export trade of the State of Travancore and also that through the major ports of Kerala, viz., Cochin, Alleppy and Calicut - is carried out to obtain a more full picture of the situation. The increase in the value of trade over a period of 100 years can be understood from Table 3.1.

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*Nairs were forced to take up jobs in the government service owing to the crisis, emerging from the destruction of Nair 'tharavads' (joint family). (Robin Jeffrey, op.cit.).

Table - 3.1

Value of Exports 1850 - 1946

(Rs. in lakhs)

Year	Value of Exports
1854-55	18.11
1864-65	46.48
1874-75	75.50
1884-85	108.21
1894-95	168.67
1904-05	171.48
1914-15	418.20
1921-22	740.90
1934-35	838.00
1945-46	3810.00

Source: 1. Travancore State Manual, Vol. III, p. 51 from 1854-55 to 1914-15.

2. Travancore Administration Report for the Relevant years for 1921-22 to 1945-46.

As is evident, value of exports increased from a meagre Rs.18.11 lakhs in 1854-55 to Rs.3810 lakhs in 1945-46, registering a 200 times increase over a period of 90 years.

Table 3.2 describes the commodity composition of exports during the same period. From Table 3.3, it becomes apparent that though with some variations, the important items of export in the late nineteenth century continued to be more or less the same even during the first half of the present century. Rubber made an entry into the export basket, in the twenties and cashew in the forties. A notable feature of the table is the tremendous and sudden increase in export trade in 1945-46 compared to that of 1940-41. The low value of exports in 1940-41 was the direct impact of the war on the export trade. There was mention about the steep fall in prices of copra and coconut oil and coir products and loss of foreign markets for these products.[41] "The woeful tale of depreciated prices was repeated in almost all the marketed commodities, except in those of rubber and lemon-grass oil",[42] which showed comparatively good performance, as is evident from the table. Actually, there was a decrease in exports in 40-41 (Rs.748 lakhs) compared to that in 38-39 (Rs.958 lakhs). But, the value of exports showed a consistent increase during the subsequent years.

Table - 3.2

Percentage Share of Important Items of Export

Items	1870-71	1899-1900	1919-1920	1938-39	1945-46
Coconut & coconut products	57.1	52.6	36.9	37.2	32.28
Coffee, Tea & Rubber	8.3	0.4	33.5	30.4	17.66
Tamarind & Arecanut	8.8	3.7	1.2	1.8	--
Ginger, Lemongrass, Pepper, Cardamom & Turmeric	15.0	14.0	10.1	7.7	11.39
Cashew	--	--	--	6.8	9.97
Jaggery, Molasses & Sugar	2.0	3.3	3.2	2.0	--
Fish	--	--	--	--	3.18
Total (in Rs. lakhs)	65.7	169.5	576.3	958.0	3810.00

*Coconut and coconut products include coir, coconut oil and copra.

Source: Travancore Administration Report 1870-71, 1884-85, 1899-1900, 1945-46 and Statistics of Travancore 1938-39.

Table - 3.3

Important Items, Value and Percentage Share of Major Exports of Travancore for Selected Years from 1892-93 to 1945-46 (Rs. in lakhs)

Items	1892-93	Percentage share	1900-01	Percentage share	1920-21	Percentage share	1940-41	Percentage share	1945-46	Percentage share
Copra	38.00	28.1	39.55	23.28	85.64	12.90	31.05	4.12	114.31	3.00
Coconut oil	4.52	3.3	5.29	--	68.19	10.27	48.87	6.53	482.89	12.67
Coir	24.62	18.2	33.80	19.90	99.82	15.03	128.19	17.14	632.71	16.61
Coffee	--	--	--	--	--	--	--	--	--	--
Ginger	--	--	--	--	--	--	--	--	--	--
Pepper	12.91	9.5	18.42	10.89	39.36	5.93	34.97	4.67	258.34	6.78
Cardamom	--	--	--	--	--	--	--	--	--	--
Rubber	--	--	--	--	42.46	6.39	137.66	18.41	236.97	6.23
Tea	6.54	4.8	16.80	9.89	123.83	18.65	159.42	21.30	436.11	11.45
Fish	--	--	--	--	--	--	17.69	2.37	127.79	3.35
Cashew	--	--	--	--	--	--	118.23	15.80	380.24	10.00
Vettupakk (Arecanut)	7.07	5.2	--	--	--	--	--	--	--	--
Palmyra Jaggery	7.89	5.8	--	--	--	--	--	--	--	--
Ilmenite	--	--	--	--	--	--	---Lemon grass oil		101.75	2.67
Others	12.84	9.5	26.13	15.38	101.09	15.23	--	--	--	--
Total	135.00	100.0	169.86	100.00	664.05	100.00	748.10	100.00	3810.00	100.00

Source : Travancore Administration Reports for the relevant years

A look at the Table 3.3 gives the information that coir, tea, rubber, cashew, coconut oil, copra and pepper were the important articles of export during the whole period. But one can observe that certain items were gradually gaining prominence and certain others declining, over the years. The relative decline of copra and the rise of coconut oil is a clear indication of copra being increasingly used in the region itself for the production of coconut oil towards the later years of the colonial period. With relative variation in their share in total exports, coir and pepper showed an increase in the value of exports during the period under discussion. Though a late-entrant, rubber very soon acquired an important place in the export basket. So was the case with cashew and fish. On the whole, it can be concluded that the export trade of Travancore increased consistently during the colonial period and the major export items were plantation products and coconut products.

Tables 3.4, 3.5 and 3.6 together provide the extent and value of exports of the whole of Kerala, which consists of the states of Travancore, Cochin and the District of Malabar. Though Alleppey was the major port of Travancore, most of the export trade was carried out through other ports. For example, the high volume of export trade through Cochin

Table - 3.4

Percentage Share of Important Items of Export Through the Port of Cochin

Items	1900-1	1910-11	1914-15	1917-18	1920-21	1929-30	1933-34	1939-40	1944-45
Coconut oil	34.05	33.43	23.92	29.52	31.12	16.74	5.72	--	--
Coir Yarn	22.21	--	--	--	--	--	--	6.37	7.10
Coir Manufactured	--	21.71	16.29	8.36	16.83	19.49	17.03	7.20	5.93
Sundries	10.28	5.70	17.93	6.85	8.24	--	--	3.45	5.03
Pepper	7.50	--	7.31	7.46	3.51	2.74	--	--	3.19
Tea	6.21	10.93	11.37	13.59	12.83	30.41	44.31	41.05	32.53
Coprah	--	12.40	14.47	--	--	--	--	--	2.80
Raw Rubber	--	--	--	20.60	11.44	15.19	5.73	13.91	3.07
Cashew Kernels	--	--	--	--	--	--	--	11.72	16.72
Total Value (in Rs.lakhs)	180.14	297.80	362.00	263.30	491.90	530.80	495.50	845.30	1938.00

Source: Compiled from the Annual Reports of the Cochin Chamber of Commerce for the relevant years.

Table - 3.5

Percentage Share of Important Items of Export Through the Port of Alleppey

Items	1900-01	1910-11	1914-15	1917-18	1920-21	1929-30	1940-41	1944-45
Copra	33.45	28.36	19.98	24.76	32.59	12.60	19.90	13.12
Coir yarn	23.06	20.05	20.00	9.74	15.50	15.09	5.31	--
Pepper	21.49	28.61	32.16	42.31	24.16	28.42	23.10	20.00
Ginger	6.13	8.39	5.44	12.01	6.50	4.83	--	--
Coconut oil	--	2.69	7.55	--	--	--	--	--
Coir mats	--	2.46	--	3.13	4.30	13.61	--	--
Coir matting	5.19	--	--	--	4.30	11.87	--	12.1
Sundries	5.45	--	--	--	9.80	--	--	18.33
Rubber	--	--	--	--	--	4.25	--	--
Cashew	--	--	--	--	--	--	5.19	--
Coir Manufactured	--	--	--	--	--	--	--	21.4
Total value (in lakhs)	43.91	84.40	50.75	64.78	111.74	371.55	75.37	59.78

Source: Annual Reports of the Cochin Chamber of Commerce for the Relevant years of Alleppey port.

Table - 3.6

Percentage Share of Important Items of Export Through the Port of Calicut

Items	1900-01	1910-11	1914-15	1917-18	1920-21	1929-30	1939-40	1944-45
Copra	6.34	12.39	13.48	7.12	12.21	7.07	--	--
Coir	7.33	10.21	9.21	3.44	6.34	--	--	--
Pepper	5.64	--	6.71	3.67	--	--	--	--
Ginger	--	11.84	5.12	9.76	--	--	--	--
Coconuts	3.79	6.51	7.86	6.78	6.18	--	--	--
Sundries	26.24	29.71	35.79	10.04	8.91	--	--	--
Coffee	32.63	15.37	11.82	5.57	6.05	--	--	--
Wood	--	--	--	8.98	5.73	--	--	--
Tea	--	--	--	17.61	20.37	19.26	--	--
Manures	--	--	--	8.44	--	--	--	--
Raw Rubber	--	--	--	11.67	7.22	4.21	--	--
Raw Cotton	--	--	--	--	9.76	21.30	--	--
Groundnuts	--	--	--	--	--	17.70	--	--
Total value (in Rs.lakhs)	135.55	135.31	143.44	123.32	213.70	502.35	281.55	235.21

Source: Annual Reports of the Cochin Chamber of Commerce for the Relevant years.

was not of the State of Cochin, but of Travancore and even of Malabar. Coconut oil and tea from Travancore found their way to Cochin. The plantation products of Travancore were even carried to Tuticorin and exported from there.[43] If during the earlier years, "a major portion of the trade of the State of Travancore came to be handled at Cochin to escape the penal duties which Travancore otherwise had to pay according to the Interportal Convention then in vogue",[44] during the later years (from 30s onwards) it was the improved port facilities and new transportation facilities[45] that resulted in the diversion of export trade from Travancore to the Cochin port.

Though there were some differences in the relative importance of major export products between the ports of Cochin, Alleppy and Malabar, all of them exported mainly the plantation products and coconut products.

The dependence of Travancore on exports is evident from the following excerpt from the Travancore State Manual. "From the proportion, viz., 97 per cent, which the exports bear to the revenue as a whole, it is obvious that Travancore depends entirely on the export duty, and to give up this duty would be to give up the source of income altogether."[46] Besides, the share of customs in the total revenue receipt of

Travancore recorded an impressive growth during the first four decades of the present century. Customs receipts which was only about 8.5 per cent of the total revenue in 1900-01, increased to about 13.5 per cent in 1920-21, to 16 per cent in 1930-31 and to about 20 per cent in 1938-39. Moreover, while income from customs was the fourth largest source of revenue in 1901, it shot up to the second position in 1934-35 and then became the single largest source in 1938-39.[47]

It is quite striking that a similar trend in respect of the share of customs revenue was observed for India too.[48] Thus increased exports, especially during the twenties and thirties became increasingly important in directly determining the total government revenue.

The foregoing discussion is helpful to understand the extent of the export-orientation and the major features of exports of the State of Travancore (and of Kerala as a whole, too) in quantitative terms.

Major Components of Imports

To complete the picture of the export-orientation of the economy, it is also necessary to have an understanding of the import trade of the region. Table 3.7 gives the value of exports and imports for selected years from 1854-55 to 1945-46.

Table - 3.7

Value of Exports and Imports of Travancore 1854-55 to 1945-46 (Rs. in lakhs)

Year	Value of Exports	Value of Imports
1854-55	18.11	6.36
1864-65	46.48	--
1874-75	75.50	45.00
1884-85	108.21	85.54
1894-95	168.67	103.68
1904-05	171.48	57.41
1914-15	418.20	293.37
1920-21	664.00	477.00
1926-27	1141.00	616.00
1930-31	965.00	766.00
1935-36	816.00	743.00
1938-39	958.00	763.00
1942-43	1654.00	1438.00
1945-46	3810.00	3067.00

Source: Travancore State Manual, Vol.III, p. 51 upto 1914-15 and Travancore Administration Report for the relevant years after 1914-15.

Two points become clear from the table. (1) There was always an export surplus in favour of Travancore, (2) While value of exports increased from 18.11 in 1854-55 by 211.7 times to 3810 lakh in 1945-46, the corresponding increase was 479 times in the case of imports. This means that there was a more than proportionate growth (more than 200 per cent) in the value of imports compared to that of exports.

Regarding the former aspect, the prima facie impression that is created is that Travancore was a beneficiary from its export-import trade. But the surplus of exports over imports need not be construed as a positive development in a colonial context. It only implies that foreign factors are very much present in the economy. What is more, surplus of exports over imports was a phenomenon not peculiar to Travancore or Cochin, but was observed in the case of India and many other colonies. A major part of export earnings accrued to foreign capitalists residing in the concerned region and cannot be considered as domestic product. "Since only that part of export proceeds which is not remitted abroad by foreign factors is available to domestic factors to pay for imports, the existence of a surplus of exports over imports is a normal effect of foreign factors' operation . . . . In these circumstances, the popular belief that it is total exports which endow a country with the ability to import, and that a surplus of exports therefore, constitutes a "favourable" balance of trade has drawn sharp protests from those studying specific export economies in which foreign factors are alive".[49] As regards the operation of foreign factors, in British India and the three regions constituting Kerala, the major exportable articles were directly under foreign ownership. In the context of India, the nationalist leaders observed that the foreign capitalists reaped all the profits arising from the manufacture and export of products like tea, coffee, indigo, cotton etc., leaving to the Indians as their share, only the poor wages.[50] As far as the principalities of Travancore and Cochin were concerned the major articles of export were the plantation products, coir, cashew etc. which were virtually under foreign control. The surplus of exports over imports of Travancore should be viewed in this context.

Analysing the composition of imports, it is not difficult to note that rice and paddy, cotton piece-goods, tobacco and kerosene were the important import items throughout the colonial period as is evident from Table 3.8. To put it differently, Travancore imported the basic necessities of the people viz., food, clothing and fuel. Even the important items of imports of the Cochin Port constituted rice and paddy

Table - 3.8

Value and Percentage Share of Important Imports of Travancore for Selected Years

Articles	1892-93	1900-1	1921-22	1929-30	1940-41	1945-46
Rice	17.2	8.0	27.6	32.7	27.4	15.2
Paddy	10.0	19.3	18.3	10.8	3.0	--
Piece goods	12.2	12.5	8.6	17.6	10.6	13.0
Tobacco	36.8	31.0	6.0	8.5	4.3	5.3
Sundries	--	--	28.9	--	--	--
Kerosine and Petrol	--	--	--	5.4	9.5	--
Other articles	19.8	22.2	--	--	--	--
Cashewnuts	--	--	--	--	4.8	6.2
Total value of Imports	74.18	103.4	493.8	933.0	945.0	3067.0

Source: Travancore Administration Report for the Relevant Years.

Table - 3.9

Percentage Share of Major Imports Through the Port of Cochin

Articles	1900-1	1910-11	1920-21	1930-31	1940-41	1944-45
Rice	26.43	20.81	25.70	32.60	29.11	22.93
Paddy	29.71	31.82	13.20	6.66	--	3.54
Grains & Pulse - other sorts	--	6.33	5.53	7.70	--	17.04
Cotton piece goods	4.71	8.27	16.19	12.06	11.21	7.34
Sundries	5.09	--	--	7.71	13.00	10.86
Oils-Kerosene etc.	4.29	9.94	8.09	14.64	--	--
Metals	--	--	6.12	--	--	--
Fuel oil	--	--	--	--	9.40	--
Coir products	--	--	--	--	8.55	--
Cotton (Raw)	--	--	--	--	--	16.64
Motor spirit	--	--	--	--	--	4.16
Total Value (in Rs. lakhs)	150.00	237.24	435.82	541.68	693.45	2665.80

Source: Computed from Annual Reports of the Cochin Chamber of Commerce for the Relevant years.

piece goods, tobacco and fuels during the same period, as is evident from Table 3.9.

Major Features of the Traditional Industrial Sector

Having examined the features of exports of the region, it is required to consider the peculiarities of the major industries during the colonial period. We have already noted the evolution as well as the major features of industries during the second half of the nineteenth century. Here an attempt is made to analyse the characteristics of the traditional industries during the first half of the present century.

From Table 3.10, it is seen that the major source of employment was tea industry, accounting for about 34 per cent of the total workforce. Coir industry stood next, offering about 22 per cent of the total employment. A new entrant to the industrial sector at this time was the rubber industry.*

Even in 1931, the important factory industries were coir, coconut oil, tiles and ceramics, tea, rubber, cashewnut, sugar, salt, mining industries, paper, match and rayon.

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*During the early years of this century, rubber was introduced into the region by the Europeans, cultivating it on a plantation basis.

Table - 3.10

The Distribution of Industrial Establishments in 1921

Industries	Using power: Factories	Using power: Workers	Not using power: Factories	Not using power: Workers	Total: Factories	Total: Workers	Percentage share in the total employment	Percentage of workers employed in factories with 100 workers or more	No. of factories under European/Anglo Indian ownership
Tea	43	5623	8	3087	51	8710	33.92	84.86	39
Rubber	3	671	2	35	5	706	2.75	92.50	4
Coir	11	2374	79	3355	90	5729	22.32	69.52	7
Other Food Industries	6	221	1	16	7	237	0.92	--	1
Wood Industries	2	291	2	39	4	330	1.28	84.54	1
Monazite Sand Factories	2	235	-	--	2	235	0.91	74.50	2
Brick & Tile	10	2736	26	621	36	3357	13.07	82.00	1
Salt Factories	2	73	5	230	7	303	1.18	--	-
Printing Press	4	498	7	226	11	724	2.82	45.03	-
Cotton weaving	-	-	33	797	33	797	3.10	--	-
Metal Factories	3	696	1	25	4	721	2.82	96.53	2
Others	3	251	5	2917	8	3168	12.34	92.71	2
Total	89	13669	169	11348	258	25017	100.00	--	59

Source: Census of Travancore 1921.

The important cottage industries were cotton and silk weaving, manufacture of silver and gold threads, lace and embroidery, coir making, wood and ivory carving, screwpine work and carpentry, bell-metal industries, etc. [51] It is striking that, of the total population of 3,51,076 engaged in industries, seven per cent only were factory workers, which indicates the preponderance of cottage industries in the State of Travancore.[52] There were nearly 159 factories. Of these the important ones were coir, cotton mills, tea and rubber, sugar and the match factory.[53]

Even in the early forties, the industrial sector was dominated by tea, coir, rubber, cashew sugar etc. Cottage industries continued to dominate the industrial sector.[54] Tea absorbed 43 per cent, coir 22.3 per cent, rubber 9.8 per cent and confectionary (cashew and all) 6.8 per cent of the total employment of 1,45,291 in the organised industrial sector.[55] As we have learnt from the earlier sections, these same items were the major ingredients of the export basket of Travancore during the same period. The export-orientation of these industries is amply illustrated in the foregoing pages.

This period was also marked by the entry of some modern type industries which will be discussed in another context. Meanwhile, it will be useful to recognise the characteristics of the important traditional industries in the following section. Coir, cashewnut, plantation and coconut are given emphasis.

Coir Industry

The development of coir industry during the three decades from the twenties, is evident from the increase in the number of factories, and in the value of exports, as shown in Table 3.11. From 13 factories in 1923, the total number increased to 72 in 1949. (The increase in the value of exports over the years was noted earlier). Also, from the late twenties onward, the number of Indian-owned factories began to show a steady increase, relative to that of European factories. The Indians, attracted by the boom in demand for coir fabrics, "came from diverse social backgrounds . . . . prosperous Ezhava farmers, Gujrati merchants at Alleppy and Syrian Christians and enterprising employees of European firms."[56]

A striking feature that becomes clear from the table is the large scale operation of European firms and small scale organisation of the Indian firms. The number of workers employed was always high in the European firms even when the number of factories owned by them was low. For example, 10 industries of Europeans employed 2897 workers while three industries of Indians employed only 469 workers in 1923. In other words, the

Table - 3.11

Numerical Distribution of Labour Force Between European and Indian Owned Coir Factories in Travancore for Select Years

	1923	1929	1931	1933	1935	1937	1939	1941	1943	1947	1949
European Owned (A)											
No. of Factories	10	8	8	9	8	9	9	12	12	17	13
Total of the average no. of workers employed daily	2897	8942	4687	4323	4767	7850	7960	5524	6222	4211	3604
Percentage share of total workers	86	66.2	48.2	59	58.3	61.2	61.2	51	60	65.7	40.1
Indian Owned (B)											
No. of Factories	3	11	11	9	11	18	20	37	26	14	59
Total of the average no. of workers employed daily	469	4570	5019	2997	3399	4978	5241	5307	4132	2192	5378
Percentage share of total workers	14	33.8	51.8	41	41.7	38.8	38.8	49	40	34.3	59.9
Total A+B Units	13	19	19	18	19	27	29	49	38	31	72
Workers	3366	13512	9706	7320	8166	12828	13201	10831	10354	6403	8982

Source: Large Industrial Establishments in India (Government of India) for the relevant years. Taken from Raman Mahadevan, "Some Aspects of Pattern of Industrial Investment and Entrepreneurship in Travancore During the 1930s and 1940s".

European factories employed 290 workers per factory, while the Indian counterpart did 156 for a factory. Similarly in 1933, 9 European factories employed 4323 workers (on an average of 480 per factory), and 9 Indian firms employed only 2997 workers (333 per factory). Even in 1943, 12 European firms had 6222 workers while 26 Indian firms absorbed only 4132 workers (518 and 159 respectively). They were more privileged than their Indian counterparts, as they had full control over the market channels.[57]

The period 1939-43 is marked by a notable reduction in the number of hands employed by both the European and Indian firms (see Table 3.11). This was mainly due to the increasing incidence of subcontracting practice in the industry. "From the forties, the growth of the small manufactories is accompanied by a parallel reduction in the scale of larger manufactories".[58] The subcontracting of orders to the rural manufactories increased very substantially in the latter half of the thirties. As a result, instead of 'demand wage rates', piece wage rates were fixed with significant increases in the workloads.[59]

A further point to be noted here is the volatility of the volume and value of the exports of coir. The World War I, the Depression and the World War II had their effects on this industry, this being primarily an exportable commodity. The Second World War resulted in the loss of foreign markets as well as fall in prices for coir products, but was saved by war demands.[60]

What is pertinent to the coir industry is that instead of attaining higher level of production over the years, this industry got disintegrated by the end of forties. The production mostly depended on manual labour, though mechanised power was used to a limited extent. No new technology was introduced in this industry. The number of hands employed also was reduced.[61] The system of recruiting workers through a contractor ('kankani') and the piece wage system of payment continued, which was quite uncommon in capitalist enterprises.

Cashew Industry*

Though started in 1925, the cashew industry got a foothold in the industrial and trading map of Kerala only by the late thirties and forties. After the setting up of the first industry in 1925, the second one came up only in 1931 in Quilon, employing about 2000 workers. A number of small processors also came into existence as sub-contractors to the

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*Information regarding the Cashew Industry is collected from K.P. Kannan, "Evolution of Unionisation and Changes in Labour Processes Under Lower Forms of Capitalist Production: A Study of the Cashew Industry of Kerala", CDS, Working Paper No. 128, 1981.

factories. They processed cashewnuts in the workers' households. By 1936-37, the number of workers rose to more than 20,000 and number of factories to 39. From then onwards, the number of factories and number of workers, together with the value of exports showed an increasing trend upto the late forties.

The cashew industry required only very simple processing. With the emergence of the prospects of large scale exports, the companies took to purchase of raw nuts and their distribution to workers' households for partial processing like roasting and shelling. Further processing like peeling, grading and packing was transferred to the factories which were no more than drying and packing yards. The setting up of factories (since 1931) did not mean any shift in the technical foundations of production except in roasting the nuts. It only meant the shifting of the processing activity formerly done in the households to the factories in which large numbers of workers were assembled.

A striking feature of this industry was the preponderance of women workers, about 90 to 94 per cent which is uncommon in the modern industries. Piece wage system was the mode of payment adopted in this industry also. Most of the labourers were recruited from the lowest class - the Harijans.

It was the "mooppan" (chief worker) who was entrusted with the recruitment of workers. The working conditions in this industry were so poor that except the most backward classes, the society in general, used to look down upon this "factory" work. "It is against this background of extremely appalling conditions of work with low wages (combined with extra economic forms of exploitation) that the basis for the growth of the cashew industry was laid in Kerala which till recent times accounted for 90 per cent of the world trade in cashew kernels".[62] A profile of cashew industry is given in Table 3.12.

Other Industries

Industries such as the coconut oil, tile and ceramic also registered considerable growth over the years. From nine in 1923, the number of coconut oil mills increased to 24 in 1949. The tile and ceramic industry also displayed significant expansion from a modest number of seven in 1923 to 22 in 1949 (see Table 3.13). As is evident from the table the capacity of employment generation of coconut oil industry was low compared to that of the tile industry. The decrease in the number of hands in the tile industry during 1931-35 has to be seen in the context of the disbandment of workers which was widespread on account of the depression.

Table - 3.12

The Profile of Large Cashew Factories

Year	No. of Factories	Total of the average no. of workers employed daily
1935	1	500
1937	2	650
1939	1	330
1941	24	17708
1943	32	21372
1947	117	35247
1949	113	37101

Source: Large Industrial Establishments in India for the Relevant Years. Taken from Raman Mahadevan, op.cit.

Table - 3.13

Profile of Coconut Oil and Tile and Ceramic Industries

Year	Coconut Oil Mills		Title and Ceramic Industry	
	No. of factories	Total of average no. of workers employed daily	No. of factories	Total of average no. of workers employed daily
1923	9	819	7	1987
1929	5	628	10	2208
1931	7	449	11	2301
1933	13	766	12	1821
1935	10	592	11	1320
1937	11	790	13	1884
1939	11	673	15	1985
1941	11	764	13	1540
1943	19*	1007	17**	1770
1947	19	1344	16	1930
1949	24	1362	22	2130

* Information about the no. of workers in 4 units not available.
** Information about the no. of workers in 2 units not available.

Source: Taken from Raman Mahadevan, "Some Aspects of Pattern of Industrial Investment and Entrepreneurship in Travancore, during the 30s and 40s, Mimeo, C.D.S., 1988.

Plantation Industry

The plantation industry gained most from the prosperous export trade of the State of Travancore (and Cochin also) during the thirties and forties. The area under plantation crops, investment in plantations and value of exports recorded steep rise during the period 1917-1947. The area under tea and rubber increased from 51000 acres in 1918-19 to 78000 acres in 1948-49 and from 47000 acres in 1918-19 to 1,03,000 acres in 1948-49 respectively.[63] From the paid-up capital of joint-stock companies in Travancore for the period 1931-48, it is not difficult to see that it was the plantation sector which stood first in the percentage share of total paid-up capital until 1945-46 (see Table 3.14). The total paid-up capital in 1931-32 which was 83.2 lakhs increased to 466.7 lakhs in 1947-48, showing more than a five fold increase within two decades. To cite another measure indicating the growth of plantation industry, the number of registered plantation companies incorporated in Travancore rose from three in 1905 to 89 in 1945 (see Table 3.15). Regarding the issue of employment, the plantation sector remained to be the highest employment generator, of all industries in Travancore. In 1921 tea and rubber factories together employed 9416 workers, tea absorbing 8710 hands and rubber 706 (see Table 3.10) together having a percentage share of 36.6. In 1941 also tea

Table - 3.14

Distribution of Paid-up Capital of the Joint-Stock Plantation Companies in Travancore for Certain Select Years Between 1931-32 and 47-48 (Sector-wise in Rs. Lakhs, Percentage Share in Brackets)

	1931-32	1936-37	1938-39	1940-41	1942-43	1944-45	1946-47	1947-48
Banking, Insurance	62.6(35.6)	76.6(40.9)	67(25.5)	76.5(25.9)	67.2(20.6)	63.2(12.6)	187.2(14.8)	229.4(15.3)
Trade Manufacturing	16.3(9.3)	16.5(8.8)	32.5(12.4)	38.9(13.1)	46.1(14.1)	98.1(19.5)	553.5(43.7)	692.6(46)
Mill Presses	6.5(3.7)	7.6(4)	7.7(2.9)	7.7(2.6)	18(5.5)	35.1(7)	31.1(2.5)	42.7(2.8)
Plantations	83.2(47.3)	78(41.6)	143(54.4)	155.1(52.4)	172.3(52.8)	282.6(56.2)	448.5(35.5)	466.7(31)
Mining	--	--	--	1.3(0.4)	6.3(1.9)	6.3(1.2)	7.1(0.6)	7.1(0.5)
Transport Transit	3(1.8)	3.2(1.7)	3.9(1.5)	5.2(1.8)	5.6(1.7)	6.8(1.4)	25.9(2.0)	35(2.3)
Sugar distillary	4.1(2.3)	4.1(2.2)	7.1(2.7)	7.9(2.7)	7.9(2.4)	7.9(1.6)	7.9(0.6)	23.2(1.6)
Hotels	.09	--	--	1.4(0.5)	1.4(0.4)	0.6(0.1)	1.0(0.1)	4.2(0.3)
Others	--	1.5(0.8)	1.5(0.6)	1.8(0.6)	1.8(0.6)	1.8(0.4)	3.1(0.2)	3.6(0.2)
Total	176(100)	187.5(100)	262.7(100)	295.8(100)	326.6(100)	502.4(100)	1265.3(100)	1504.5(100)

Source: Report on Joint-Stock Companies in British India and in the Indian States for the relevant years. (Taken from Raman Mahadevan, op.cit.)

Table - 3.15

Plantation Companies in Travancore

Year	No. of registered plantation companies incorporated and working in Travancore	No. of registered plantation companies incorporated outside Travancore
1905	3	Not known
1915	10	-Do-
1925	37	17
1935	38	23
1945	89	19

Source: Statistics of Travancore - cited in T.C. Varghese, op.cit., Appendix. Census Travancore, 1941, p.94.

factories employed the maximum number of workers, 62560 (43 per cent) out of a total number of workers of 145291. Tea and rubber together accounted for 50 per cent of the total employment in the same year.[64] Exports of tea and rubber also showed tremendous increase over the years. The value of exports of tea which was 1.27 crores in 1921-22 shot up to 2.03 crores in 1934-35 and to 4.36 crores in 1945-46. Export value of rubber, from a meagre 25.86 lakhs in 1921-22 increased to 35 lakhs in 1935-36 and to 1.65 crores in 1941-42 and reached 2.37 crores in 1945-46.[65] One more point deserves emphasis in this context, which relates to the dominance of Europeans over the plantation industry during the period under discussion. In Wynad and Travancore together, the percentage share of area under tea owned by Europeans in the total area increased from 77 in 1925 to 84 in 1937. Though the share of area owned by Europeans in Travancore and Wynad started declining by the end of World War II, it was still high - around 70 per cent - in 1956.[66] During the late thirties and forties, even when Indian capital could make some headway (both local and immigrant), European capital was still predominant in the plantation sector. While 80 per cent of the acreage under tea in estates of 100 acres and above was under the control of European companies in 1947-48, in rubber it was 43.9 per cent.[67]

While the plantation industry experienced significant development in all respects during the inter-war period, an analysis of the labour conditions reveals quite a different picture. The 1920s was marked by a sharp increase in the number of workers employed in the plantations, very much greater than the increase in the area under plantations, which is indicative of the lack of any labour-saving technological change.[68] The Breach of Contract Act of 1859* and the piece wage system continued even during this time, which were two powerful weapons in the hands of the planters to exploit the labourers. The consequent crisis that emerged owing to the depression was mostly passed on to the labourers. Retrenchment and wage cuts were widely adopted by the planters. Travancore seemed to be the worst hit with respect to lay-offs, with a fall in total employment by nearly 30 per cent over the period 1929-32.[69] It is surprising to note that, retrenchment and lay-offs had taken place at a time when the Breach of Contract Act was still in vogue. What is more, the reduced wages during the depression years were not raised until 1944, one of the best years of prosperity for the plantation products.[70]

Another notable feature of the plantation industry, (rather a common feature of the organised export-oriented industries) was the recruitment of women workers in large

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*The Breach of Contract Law of 1857 ensured permanent supply of labourers to the plantations. The labourers, once recruited, were liable to work in the plantations until the period of contract was over, the failure of which entailed punishment.

number. By the early 1940s women workers in the tea plantations of South India, constituted 47 per cent of the total workforce, men accounting for only 42 per cent and the rest being children.[71] The industry (and also rubber) developed as an enclave in itself, by importing the required machinery and exporting the entire product.[72]

A significant aspect to be emphasised about the traditional industries such as coir, cashew and plantations is related to the organisation of production in these industries. The factory system of production together with the mode of payment in cash in these industries had made an impression that these industries were constituted on capitalist lines. But as we have seen earlier, the factory system was only a convenient arrangement to facilitate thorough supervision over the work. Though cash payment was adopted, instead of the then prevailing custom of reward in kind, in all the three industries mentioned above, piece wages were the system of payment. This practice acted as an inhibiting factor against the bargaining power of the factory workers. The 'kankani' system (recruitment of labourers through a contractor) was another factor which stood in the way of the development of capitalist production. Here, labour is never confronted with capital directly. That is, instead of the practice of the capitalist directly purchasing labour power, this is done through a proxy, the contractor, which is not characteristic of a 'capitalist', in the true sense of the term. Moreover, the employment of a large number of women workers in the cashew and plantation industries (in coir also to a lesser extent) only helped to maintain a patriarchal relationship with the employer, thus transplanting the feudal set up into the factories. Also, trade unionism could be prevented by employing more women workers, not to speak of "the comparative cheapness of female labour" which was very attractive for the employer and was easily available on the required scale.[73] It should also be noted that the rigid caste system followed in the pre-capitalist society of Kerala was reflected in these export-oriented industries. For example, if in the cashew industries, only the lower castes sought employment, in the coir industries the majority of workers were the Ezhavas.

As stated elsewhere, the technology and machines used were restricted to the minimum, as it was the cheap labour that enabled all these industries to compete in the international market. So there was no scope for further technical innovation, which could have improved the labour condition which was ugly, tiresome and unpleasant. The export-oriented nature of the industries, firmly entrenched in the colonial framework, along with other socio-economic factors "depressed the tendency of capital to constantly improve the technique of production. Therefore the transitional manufacturing and pre-manufacturing forms of production organisation came to persist and characterised most of these industries".[74]

The major traditional industries that came to be established in Travancore, which were exclusively export-oriented, never showed any traits of capitalist production, barring some superficial symptoms. This was mainly due to the dominance of trading interests over production.* As we have seen, the class, either European or local, which undertook production (manufacturing) and trading, exhibited the traits not of capitalists but of merchants. As observed by some writers, "thus all these industries were highly labour-intensive with low capital investment in direct productive activities. The key link was the control over trade".[75] In other words, the capital associated with the coir, cashew and plantation industries was the European merchant capital, and the local merchant capital played a subordinate role.

The export-oriented nature of these industries blocked any possibility of establishing forward linkages. Also the

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*A detailed analysis of this aspect is done in chapter IV.

labour-intensive character coupled with the practice of importing the required machinery stood in the way of the establishment of related (forward linkage) industries.

Evolution and Export-Orientation of the Modern Sector

As indicated earlier, the modern sector had distinct characteristics, compared with the traditional sector. These industries were capital intensive, using modern technical knowhow, and producing more sophisticated industrial goods. What is peculiar to the evolution and growth of the modern sector industries was that, they had no organic relationship with the already existing industries of the region. In other words, the growth of these industries was not related to the existing traditional industries. Instead, this sector got established in the region under the conscious efforts of the government (of Travancore with the blessings of the colonial masters) and with the initiative of immigrant entrepreneurs. This section starts with a brief sketch of the industriali- sation policy of the British Indian Government in general and that of the Government of Travancore in particular. It is followed by an analysis of the characteristics of the modern sector, especially its export-orientation and then the in- significant role of the nascent business class in the emerging modern sector during this period.

Industrialisation Policy of the British Indian Government

Until the First World War, the policy of the Madras Government was one of encouraging only cottage industries, under the presumption that India was not fit for factory industries which needed advanced technology and good enterprise.[76]

But the First World War was a turning point in the history of colonies, especially of British India and other princely states. The war brought about significant changes in the Industrial Policy hither to followed by the Government of India. The growing economic dominance of U.S.A., Japan etc. was posing serious threat to Britain, which became clear during the First World War. In 1915, Viceroy Lord Hasting's Government wrote in a despatch to the Secretary of State for India: "It is becoming increasingly clear that a definite and self-conscious policy of increasing the industrial capabilities of India will have to be pursued after the war, unless she is to become more and more a dumping ground for manufacturers of foreign nations".[77] The Indian Industrial Commission 1916-18, the appointment of Indian Fiscal Commission in 1921 and of Tariff Boards for selected industries were the reflections of the policy shift of the Indian Government.[78] It was as part of this policy that a Department of Industries was established in Travancore and Cochin in 1919.

The policy shift towards a positive attitude in the direction of industrialisation by the Government of India was reflected in the introduction of State Aid to Industries Act by the Madras Government in 1923. This Act made room for state aid to factory industries, along with cottage industries.[79] But there was little change in the industrial policy of Travancore even after the above-said changes. The functions of the Department of Industries were confined to the establishment of technical institutes where training was given in handloom weaving, carpentry, smithery, drawing, carving, pottery etc. There were also Industrial Schools in the majority of which cotton-weaving was taught, the other subjects taught being coir weaving, rattan works, screw-pine, mat weaving etc. State aid was also given to cottage and small scale industries in the form of loans, guarantees, supply of machinery, or hire purchase system etc.[80] Even in the late twenties, the policy of the Government of Travancore was one of encouraging and promoting only cottage industries. The government also declared that it did not intend to give any special encouragement to the factory system, as it was unsuitable to the country.[81]

Even in the Madras Presidency, the State Aid Act was not enforced until 1937. This was clearly stated in the report of the Public Accounts Committee in 1937. "However, it was not until 1936, when under the new political system, the governor's power to act independently of the Council of Ministers was substantially reduced and the secretariat was made responsible to ministers that modifications were made in the State Aid to Industries Act. These allowed aid to be given to new enterprises in existing industries".[82] Also there is reference to the clash of interest between merchants and industrialists which stood in the way of state aid to industries to be put into practice.[83] Another observation is that, the problem was how to reconcile this policy of developing India's industries for strengthening the raj, with the interests of metropolitan capital.[84] It is against this context that the change in industrial policy favouring factory-industries of the State Government of Travancore assumes significance.

At this juncture, some observations regarding the change in the industrial policy of Travancore deserve mention. According to one view, the repeated demands from the nascent entrepreneurs for state intervention in hastening the pace of industrialisation acted as a determining factor which eventually resulted in the shift in the industrial outlook of the government.[85] This view appears to be based on a weak foundation. If Travancore had such a strong entrepreneurial class, the absence of state aid could not have blocked their readiness to establish modern industries in the state. In the Madras region, investments were made in cotton, sugar, textile machinery etc. by private capitalists during the twenties and thirties, even in the absence of state aid.[86] So was the case of Bombay and Calcutta. In Travancore, private initiative was nowhere to be seen.

The other explanation regarding the policy shift towards factory type industrialisation, does not take into account the objective realities such as colonialism. This view, attributes the industrialisation efforts of Travancore, to purely subjective factors such as the Dewan's (C.P.Ramaswamy Iyer) daring efforts and dynamism. It should be noted firstly that, the industrialisation efforts during the thirties and forties were not peculiar to Travancore alone; similar serious efforts were made in this regard in the States of Baroda, Hyderabad, Mysore etc. More than that, Travancore was not an independent sovereign state to be amenable to a Dewan's vision. On the contrary, each policy of the Government of Travancore was so much controlled by the colonial rulers, that the government expressed its inability in taking independent decisions on many occasions. For example, in 1933, while some members of the legislative assembly criticised the government for the throw away prices at which land was rented out to the Kannan Devan Hill Produce Company under the agreements of 1878 and 1886, the government only expressed its helplessness and inability in this regard.[87] The observation that "the direct influence of foreign commerial interests in the policies of Travancore administration were greater than in Mysore or Hyderabad"[88] assumes significance in this context. (This must be, most probably, due to the near-total dependence on exports of Travancore). What is emphasised here is that, it could be only with the permission and consent of the colonial rulers that Travancore announced an industrial policy which favoured the establishment of factory type industries (i.e., the modern industries) in the late thirties. The outbreak of World War II also provides a favourable background for the evolution of the modern sector. This is not to deny the roles of the two factors discussed above. What is at issue is that the policy shift towards industrialisation, cannot be attributed solely to the Dewan or to the nascent entrepreneurs suppressing the more significant factor, viz., colonialism. Having discussed the background (pull factors) which resulted in a policy shift towards factory-type industrialisation, we may proceed to examine the major features of the industrial policy announced in the mid-thirties by the Government of Travancore. They were:

a) Concessional credit facilities, land concessions, subsidised supply of firewood, electricity and such other infrastructural facilities were provided by way of encouraging private capitalists to start new industries.

b) Another measure taken towards industrialisation was direct government investment in those sectors where sufficient private initiative was not forthcoming.

c) To ensure markets for the products of the new industries, the government appointed trade agents outside Travancore and established a government sales depot at Trivandrum.

d) Fourthly, with a view to creating healthy industrial relations, the government took initiative to have apolitical trade union movement and institutionalised collective bargaining.[89]

2. The Evolution of the Modern Sector and Its Major Features

Though industries belonging to the modern type could be observed even in the late 19th and early 20th century, it was only by the mid-thirties that a modern sector, as such got evolved in the region.*

The government's change in the industrial policy was

*Even in the 1880s there were private entrepreneurial efforts in the modern sector of Travancore, A cotton spinning mill using mechanical power was established at Quilon by Darragh, the European businessman in 1884. A paper mill was started in Punalur in 1887, by the same entrepreneur which was closed down in 1893 and re-started in the pre-World War I years, (Raman Mahadevan, op. cit.).

manifested in the establishment of a fully government-owned company, the Travancore Rubber Works in 1935. In 1938, the Government Ceramics at Kundara was established under Government ownership. Even after the policy shift towards industrialisation, it was only during the forties that a real spurt of private investment occurred in Travancore as far as the modern sector was concerned. This period was marked by the inauguration of hydro-electric power, by the commissioning of Pallivasal Hydro-electric Project in 1940. The role of hydro-electric power in the industrialisation of India was emphasised by several writers, during the inter-war period. "Government initiative in the direction of construction of hydro-electric plants was slow and halting and it was not until the late thirties and the forties that water power became available for the new industries - such as aluminium and alkalies - whose development depended on cheap electricity".[90] In the case of Travancore, the role of hydro-electric power was all the more significant, this being the pace-setter of industrialisation of this region. To cite a few examples, the inauguration of industries like the FACT and Aluminium Factory at Kundara as well as the re-starting of Punalur Paper Mills in Travancore were solely on account of the availability of electricity.[91] As observed by Mathew, "the growth in the number of factories was remarkably rapid during the hydel stage of power development".[92] That is, once the industrial outlook of the government took a positive turn towards modern industries, the major catalyst for the establishment of modern industries was the inauguration of hydro-electric power.

An examination of some of the major features of the modern sector is in order here.

a) Immigrant Entrepreneurs

The new favourable industrial climate in the State of Travancore was mostly exploited by the immigrant capital. Some of the major industries got established in Travancore and the entrepreneurs associated with them are given in the Table 3.16. While the FACT, Travancore Cements, Travancore Rayons, Indian Aluminium Company etc. were set up under the initiative of Tamil capital, Travancore Rubber Works* and Travancore plywood industries were run by Gujarati entrepreneurs.[93]

This period was also marked by the entry of European capital into the modern industrial sector. In 1937 itself, the Punalur Paper Mills was taken over by A.F. Harvey. In 1937, the Travancore Sugar Ltd., the Government Distillery at Nagercoil and the Government Pharmaceutical Works at

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*Though Travancore Rubber Works was started as a fully government-owned company it was transferred to private hands in accordance with the policy followed by the government.

Table - 3.16

Major Industries and Entrepreneurs in the Modern Sector During the 30s and 40s in Travancore

	Industry	Entrepreneur
1.	FACT	Seshasayee Brothers; Madras
2.	Travancore Rubber Works	Chinnubhai Madhowlal Ranchodlal, Ahmedabad.
3.	Travancore Plywood Industries	-Do-
4.	Travancore Ogale Glass Manufacturing Co.	Ogale Brothers, Bombay.
5.	Travancore Cements	SNN Sankaralinga Aiyer, Madras.
6.	Travancore Rayons	MCTM Chidambaram Chettiar, Madras.
7.	Indian Aluminium Co.	Seshasayee Brothers, Madras.
8.	Sri Chitra Mill	Victor Sassoon, Jewish House.
9.	British Titan Products	European
10.	Punalur Paper Mills	A. F. Harvey, European
11.	Travancore Sugar & Chemicals	Parry & Co. European

Source: Raman Mahadevan,op.cit and Ram Mohan, op.cit.

Trivandrum were handed over to Parry & Co. Ltd., the South Indian Sugar monopoly house. The new company was known to be Travancore Sugar and Chemicals Ltd. Parrys also established another factory at Thiruvalla in 1948. Indian Aluminium Company was another major industry under the control of foreign capital. Two thirds of the shares of this company was controlled by a Canadian Company working at Calcutta. Sir Victor Sassoon a Jewish man who had business connections all over the world invested in Sri Chithra Mill, Alwaye.[94]

Very few industries were started by the nascent entrepreneurs (the reason for which will be discussed elsewhere). The West Coast Fisheries Ltd., the Balarama Varma Textile Mills Ltd., the Vijayamohini Mills and the Travancore Enamel Industries were owned by native entrepreneurs. It is interesting to note that they were associated with comparatively safe industries, which required no sophisticated technology or machinery (such as textile mills, fisheries etc.).

b) Reliance on Foreign Technology

The shyness of nascent capital and the entry of immigrant capital do not mean that the immigrant capital had the necessary technology. In this respect the experience of the modern industries of Travancore was not different from that of India or other underdeveloped countries. That is, the modern sector industries got established in Travancore during the thirties and forties were directly or indirectly associated with foreign capital in a subordinate relationship. As we have already seen, some industries - the Punalur Paper Mills, Travancore Sugars and Chemicals,Titanium Products etc. - were foreign ventures. The managing agents of Travancore Rayons and Travancore Cements were foreign firms (Emcete & Sons and Essel Ltd. respectively) (see Table 3.17). FACT had relied on both imported machinery and technical collaboration.[96] The government was even criticised for introducing foreign capital and foreign enterprise into Travancore, which allegation was defended by the Dewan citing the model of Japan.[97] In short, the spurt in industrialisation in Travancore occurred only with the assistance of foreign firms.

c) <u>External Markets</u>

What is peculiar about the modern industries that got established in Travancore was that they exclusively catered to external markets; more precisely to the war requirements. The World War II resulted in a hike in war demands, high protection due to the cessation of imports, vast amount of money in the hands of Indian business firms through speculation etc. All these factors together contributed to the establishment

Table - 3.17

A Profile of Capital Invested in the Major Modern Industries During 1940

Name of concern	Year of registr- ation	Managing Agency	Paid-up Capital in Rs. Lakhs					Assistance given by the State Govt. as on 16-8-50		
			1943-44	1944-45	1946-47	1947-48	1948-49	Paid up value of shares taken	Percen- tage of total paid up capital	Loans
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1. FACT (Ltd.)	1943	Seshasayee Bros. Travancore Ltd.	23.01	175.84	224.65	224.90	345.96	217.50	63	10.00
2. The Travancore Titanium Products	1946	Indian Titanium products Co.Ltd.	--	--	12.65	33.33	63.82	33.28	53	--
3. Travancore Rayons	1946	Emcete & Sons	--	--	147.86	149.91	149.92	30.00	20	96.00
4. Travancore Cements	1946	Essel Ltd.	--	--	--	49.96	149.92	16.00	32	47.14
5. Forest Indu- stries Travan- core Ltd.	1946	Seshasayee Bros. Travancore Ltd.	--	--	--	24.90	24.91	12.75	51	--
6. The Aluminium Industry Ltd., Kundara	1946	-Do-	--	--	--	10.00	10.00	2.00	20	5.0
7. Balarama Varma Textiles	1945	Kareyalar & Rangaswamy Naidu Sons& Co.	--	--	7.00	--	10.00	5.00	52	--

(Contd../-)

(Contd)

Name of concern	Year of registration	Managing Agency	Paid-up Capital in Rs. Lakhs 1942-43	1943-44	1944-45	1946-47	1947-48	1948-49	Assistance given by the State Govt. as on 16-8-50: Paid up value of shares taken	Percentage of total paid up capital	Loans
8. West Coast Fisheries	1946	Jacob Cherian & Co.Ltd.	--	--	--	--	24.01	14.05	5.00	21	--
9. Travancore Sugars & Chemicals Ltd.	1937	Parry & Co.Ltd.	--	--	7.15	7.15	22.49	22.99	4.28	10	--
10. Punalur Paper Mills	1931	A & F Harvey Ltd.	--	--	--	--	5.01	5.018	3.14	21	--
11. Travancore Ogale Glass Manufacturing Co.	1942	Ogale Bros.Ltd.	2.06	3.72	4.98	8.99	9.81	9.946	2.20	22	--
12. Travancore Electro-Chemical Industries	1945	Indian Industries Ltd.	--	--	--	--	--	5.70	2.00	25	--
13. Electrical & Allied Industries Travancore	1946	Allied Engineers Ltd.	--	--	--	--	--	13.68	1.00	7	--
14. Vijaya Mohini Mills	1945	Binsutam & Co.	--	--	--	--	9.41	11.92	1.00	8	--
15. Travancore Enamel Industries Ltd.	1945	Associated Industrial Agencies	--	--	--	--	2.00	2.00	0.20	10	1.50

Source : Raman Mahadevan, op; cit.

of a number of industries all over India. "The war, no doubt, came as a heaven-sent boon to the Indian big bourgeoisie. In the prevailing conditions of scarcity due to stoppage of imports and vast military purchases, factories worked round the clock and prices soared beyond the most avaricious dreams of the manufacturers and merchants".[98] The case of Travancore was exactly in the similar pattern, as observed in the context of India. The predominant feature of the industrial activity of the state was the production of war materials to meet the demands of Indian Supplies Department (specifically created to supply war materials). Factories were working for longer hours and to full capacity to cope with the ever increasing demand.[99] The modern industries were even termed as the war-oriented industries.[100] One writer even went upto the extent of saying that, it was as a consequence of increased war demands, that the governments of Travancore and Cochin were compelled to pay special attention to promote the war-oriented industries and hence a variety of industries got established.[101]

But the very nature of these industries - dependence on war demands - met with the unavoidable fate of closing down. Some of the promoters of the war-oriented industries of Travancore disappeared by the end of the war. The entrepreneurs who were attracted to specific industries catering to the war requirements, made their exit when that possibility ceased to exist. The story of Chinnubhai Madhowlal from Ahmedabad deserves special mention in this regard. In 1941, this industrialist entered Travancore by taking partnership in the Travancore Rubber Works with the Government. The Travancore Plywood Industries was also promoted in 1942 by the same entrepreneur. These two industries made huge profits during the war-time boom, by supplying a major portion of its output to the War Supplies Department. Soon after the war, these industries, facing crisis on account of the end of the war were handed over to the government. With some exceptions, most of the industrial units were experiencing considerable difficulties in putting themselves on a firm footing. "Thus it would seem that dynamism is associated merely with entry of capital into industry, and not with performance".[102]

The major raw materials of many of the modern industries had to be obtained through imports. To cite an example, while the Aluminium Industry got established in Travancore on account of the availability of cheap electricity, bauxite the chief raw material had to be brought from the northern part of India. Similarly, sulphur the chief raw material for the chemical industry had to be imported from Japan or Sicily.[103]

The above discussion brings forth the following points:

1. The major external stimuli for the evolution of the modern sector during the forties were (a) a change in the Indian Industrial Policy in favour of large-scale industries; (b) the demands from the war supplies department.

2. The only internal factors helpful for industrialisation were the availability of cheap hydro-electric power, and the encouragement and concessions from the government in the form of capital participation.

3. Local entrepreneurship was meagre and it was the immigrant entrepreneurs that exploited the favourable industrial climate in the region.

4. Most of these industries were export-oriented, serving the needs of war demands.

5. Just as the industries of other parts of India, the modern industries of Travancore also depended on foreign technology.

3. The Economic Activities of the Nascent Business Class

An examination of the economic activities of the nascent business class is necessary to understand the reasons for their absence in the modern sector. In the previous section, we have seen that the evolution of banking in Travancore was closely connected with the export trade. By the extension of Indian Companies Act of 1882 to Travancore in 1887, it became possible to form joint-stock companies for the purpose of starting any kind of business[104] which paved the way for the growth of joint-stock companies in the realm of banking, insurance, trade etc. in Travancore. It was only from the early twenties that a phenomenal growth in joint-stock companies took place in the region. From 145 in 1922-23, the number of joint-stock companies increased to 924 in 1932-33, as is evident from Table 3.18. From 1932-33 onwards, there was a perceptible decline in the number of joint-stock companies. This was due to a government regulation passed in the same year which necessitated a deposit of Rs.5,000 for registration of joint-stock companies in view of their mushroom growth.[105] What is peculiar about the nature of growth of joint-stock companies was that in a period of economic depression, their number increased in an alarming proportion. Out of the 924 joint-stock companies, 784 were banking, loan and insurance companies (Table 3.18), which belonged to the unproductive sector of the economy. It should also be noted that the depression years witnessed large-scale disbandment of labourers and closing down of factories. It is quite natural that the speculative activities get a boost when the whole economy plunges into a crisis, like the depression. By 1939, there was considerable fall in the number of joint-

Table - 3.18

Joint-Stock Companies Working and Incorporated in Travancore

Year	Total No. of Joint-Stock Companies	No. of loans, banking and insurance Co.	Total paid up capital (lakh of Rs.)
1922-23	145	38	77.2
1923-24	139	37	84.9
1924-25	134	36	85.7
1925-26	140	44	84.8
1926-27	152	57	102.9
1927-28	221	120	114.5
1928-29	308	195	127.2
1929-30	372	255	157.6
1930-31	403	269	165.6
1931-32	653	529	176.1
1932-33	924	784	190.0
1933-34	641	505	183.3
1934-35	425	345	194.5
1935-36	390	271	187.6
1936-37	440	267	140.5
1937-38	478	270	262.8
1938-39	447	243	274.8
1939-40	407	205	295.9
1940-41	368	173	303.1
1941-42	356	154	326.6
1948-49	796	163	1697.9

Source: Statistics of Travancore. Taken from T.C. Varghese, op. cit.

stock companies. This was due to the liquidation of the Travancore and Quilon National Bank in 1938 (the largest bank in Travancore at that time) and the resultant stringent measures taken by the government.

Table 3.19 gives the sector-wise distribution of joint-stock companies for the year 1935-36. Out of the 390 registered companies, 244 engaged in banking and lending and 26 in insurance. These 390 companies had a total paid-up capital of Rs.187.6 lakhs. Until the mid-thirties, the 'banking and insurance' companies had a high share in the total capital invested, next only to plantations. In 1936-37, about 41 per cent of the total capital invested was accounted for by banking and insurance. It was only during the forties that the share of banking and insurance began to show a decline.

The crux of the above discussion boils down to the fact that the major economic activities of the nascent moneyed section were mostly confined to usurious and speculative activities almost neglecting the production sphere. The nature of the nascent capitalist class is dealt in greater detail elsewhere.

Table - 3.19

Sector-wise Distribution of Joint-Stock Companies in Travancore in 1935 - 36.

	Companies	Number
1.	Banking and Loan	244
2.	Nidhis and Chit Association	1
3.	Insurance	26
4.	Motor traction, dealing and manufacture	6
5.	Others (transit and transport	1
6.	Mutual trading associations	4
7.	Printing, Publishing and Stationery	13
8.	Engineering	4
9.	Public Service	1
10.	Clay, stone, cement and other building materials	5
11.	Agencies	1
12.	Other trading and manufacturing concerns	38
13.	Cotton Mill	1
14.	Paper Mill	1
15.	Oil Mill	1
16.	Rice Mill	1
17.	Tea Planting Companies	13
18.	Rubber	15
19.	Others	10
20.	Sugar Company	1
21.	Other Companies	3
	Total	390

Source: Travancore State Manual, Vol.III, p. 666.

Export-Orientation and Disarticulated Development

a) Disarticulation in the Agricultural Sector

As indicated earlier, going beyond the aggregate figures of trade, an attempt is made to understand the long-term implications of the export-orientation of the economy on each sector. Theoretically, an extraverted economy will have with it the symptom of disarticulation or incoherence. In the context of Kerala, a striking manifestation of disarticulation during the period of analysis is reflected in its production-consumption relationship. The heavy reliance of the economy for its basic necessities such as food, clothing and fuel, on imports, and the reliance on foreign markets for its products (both agricultural and industrial) is typical of a disarticulated economy (see Table 3.20).

About 65 per cent of the items of export constituted plantation products (including coconut products) and about 60 per cent of the items of imports were the basic necessities, viz., food, clothing and fuel.

A look at the area under major crops during the interwar period will be more revealing (see Table 3.21). As is evident from the table, the area under paddy declined

Table - 3.20

Percentage Share of Major Export and Import Items of Travancore in 1937 - 38

Items of Export	Percentage share	Items of Import	Percentage share
Tea	23.9	Rice	31.9
Rubber	8.0	Paddy	2.2
Coffee, Cardamom etc.	4.5	Other food articles	3.4
Coir Products	17.4	Textiles	11.0
Coconut oil	6.3	Kerosine	7.0
Copra	4.4	Tobacco	3.7
Total	65.1	Total	59.2

Source: T.K. Velu Pillai, op.cit., Vol.III, cited in E.M.Sankaran Namboodirippad, Keralam Malayalikalude Mathrubhumi, Kerala Grandhasala Sahakarana Sanghom, 1981, p.193.

Table - 3.21

Area Under Principal Crops 1918/48 of Travancore('000 acres)

Year	Paddy	Coconut	Tapioca	Sugarcane	Rubber	Tea	Coffee	Pepper	Ginger
1918-19	638	460	389	4	47	51	-	-	-
1925-26	668	510	422	27	54	68	-	-	-
1930-31	659	550	498	9	60	78	-	-	-
1935-36	690	575	442	15	97	78	6	84	23
1940-41	639	547	446	11	91	72	6	94	35
1945-46	632	317	477	15	112	77	7	91	38
1948-49	520	521	486	10	103	78	8	88	32

Source: Cited in T.M. Thomas Isaac and P.K. Michael Tharakan, op.cit., p. 8.

from 6,38,000 acres in 1918-19 to 5,20,000 acres in 1948-49. At the same time, barring the depression years, the area under commercial crops especially coconut and rubber continued to expand. In this context it should be noted that "Travancore had the highest percentage area under cash crops in 1920-21 and that this position was maintained by her right upto 1946-47".[106] The government's taxation policy encouraged the cultivation of tree crops (plantations and coconut) rather than paddy. The taxes on waste lands levied for coffee, tea and rubber cultivations were very light, so that it was more profitable to cultivate cash crops. It was shown that the tax on paddy lands worked out to be about 20 per cent of the gross income, on coconut lands to about 1.5 per cent and for lands under rubber to about two per cent.[107] From the discussions in the Sri Moolam Assembly, the pathetic condition of the paddy cultivators was described, owing to the free import of rice and paddy into Travancore. According to a member of the Assembly, ". . . . . . unless encouragement is given by a good remission of tax to paddy cultivators in Travancore, it is impossible to make any improvements in our present deplorable plight".[108] What is pertinent is the fact that while cash crops were given all encouragements with nominal tax rates and repressive labour laws, the food crop sector remained not only a neglected one, but even made unremunerative on account of large volume of import of rice. Thus within the agricultural sector, there were two sectors - the plantations and the food crops - developing independently of each other or rather one developing at the cost of the other, thereby distorting the whole economy.

In this context, a comparison of the experience of Travancore with that of British India assumes significance. The entry of British capital into Travancore, the consequent importance achieved by the plantation crops and the export-orientation of the economy, played a major role in making it an import-dependent one in the case of food items; and this in turn resulted in the retrogression of the food crop agricultural sector. However, the impact of colonialism was just the opposite on British India which began to export food articles. The food export was one of the major reasons for the chronic scarcity of foodgrains and famine conditions in the country and even for its poverty. In fact, the export of foodgrains was possible only by keeping the people half-starved.[109] What is striking about this is the fact that exports of foodgrains by British India and imports of the same by Travancore were equally harmful to both the economies. That is, while starvation of the mass was the net result of export of foodgrains from British India, destruction or retrogression of the food crop agriculture was the effect of import of foodgrains into Travancore.

Disarticulation Within the Industrial Sector

Examining the industrial sector, the traditional and the modern sectors acted as two distinct components of the whole industrial sector, without any relation between each other. The traditional sector served the needs of the external market, whereas the modern sector developed in response to some external stimuli such as the war-demands. As far as the modern sector was concerned, the supply factors such as the raw materials, technology, expertise etc., except labour and power, had to come from outside. The demand factor also came from external sources. In effect, these two sectors developed solely in response to external impulses. These two sectors failed to satisfy each other's demand in any way. The traditional sector, particularly the coir industry, instead of developing into higher stages of capitalist production, met with disintegration of the factory system. Thus the traditional sector remained as such failing to attain higher forms, and the modern sector was juxtaposed on the traditional one. This enclave-type development was part of the disarticulation which the region was experiencing on account of its export-orientation.

A natural outcome of the distortions within the agricultural and industrial sectors was the lack of linkage between these two. Though the traditional sector had some backward linkages with the agricultural sector, it had only an adverse effect on the food crop sector. Instead of the industrial and agricultural (food crop) sector becoming the market for each other, they developed as separate entities, thereby blocking each other's development.

Hypertrophy of the Tertiary Sector

Another prominent feature of the Travancore economy was the disproportionate growth of the tertiary sector compared with the commodity producing sectors. As seen in Table 3.22, the share of population in the primary sector recorded an increase from 53.2 per cent to 57.2 over a period of forty years from 1911-1951. The secondary sector registered an increase from 19.6 per cent to 21.1 per cent and in the tertiary sector there was a decrease from 27.2 to 21.7 per cent. But these figures are a bit misleading in the sense that a section of the population categorised under 'domestic servants' in 1911 was shifted to the category of 'agricultural labourers' in the 1951 census.[110] The point to be stressed is that, in Travancore, as per the 1931 Census, out of the 34 per cent of the total population under the category 'others', about 30 per cent were domestic servants.[111] So

Table - 3.22

Distribution of Population under Different Groups in 1911 and 1951 in Travancore

Occupational Groups	1911		1951	
	Population ('000)	Percentage share	Population ('000)	Percentage share
(1)	(2)	(3)	(4)	(5)
Agricultural Occupation				
Cultivating Land-owners	1164.0	34.0	2295.3	30.5
Tenants	124.1	3.6	439.1	5.8
Agri-Labourers	229.8	6.7	1488.6	19.8
Rent Receivers	95.8	2.8	84.1	1.1
Cultivators of Special products	209.1	6.1	--	--
Total	1822.8	53.2	4307.1	57.2

(Contd..)

(Contd..)

(1)	(2)	(3)	(4)	(5)
<u>Non-Agricultural Occupation</u>				
Non-agricultural commodity production	672.8	19.6	1586.8	21.1
Commerce & Transport	340.3	9.9	710.0	9.4
Others	593.1	17.3	923.9	12.3
Total	1606.2	46.8	3220.7	42.8
Total population	3429.0	100.0	7527.8	100.00

Source: T.C. Varghese, op.cit., p. 128.

there is ample evidence to believe that it was the tertiary sector that was growing during the period 1911-51.

The income inequality is also another measure, which indicates the increasing trend of marginalisation. From Table 3.23,the huge gap between the highest and lowest annual income per head of the state can be understood. If income per head was the highest (Rs.332) from 'Public Administration' in 1931, it was the lowest for 'Agricultural Labour', which was only Rs.61. In terms of percentage share, 28.77 per cent of total workers earned only 14.52 per cent of total income (from agriculture), whereas 1.93 per cent of total population who belonged to 'Public Administration', got a share of 5.30 per cent in total income. From 'Trade', 13.13 per cent of people earned 21.24 per cent of income, with an income per head of Rs.196. But even within 'Trade' there could exist wide disparity in income, for this include large scale exporters and also retail/marginal petty traders. 'Professions and Liberal Art' and 'Miscellaneous Occupation' are the other two occupations yielding high incomes - Rs.247 and Rs.198 per head respectively. However, as clear from the table,these occupations absorbed only 6.17 per cent and 4.78 per cent of people respectively. On the whole, 'Agricultural Labour', 'Unskilled Labour' and 'Textile Industry' were the major occupations generating very low levels of per capita income, i.e., Rs.61, Rs.80 and Rs.89 respectively.

Table - 3.23

Occupational and Income Distribution of People(1931)

Occupation	No. of persons	Percent-age share	Total Income (Rs.lakhs)	Percent-age share	Average income per head (annual)
Agricultural Labour	263385	28.77	160.9	14.52	61
Estate Coolies	46128	5.04	54.8	4.84	119
Unskilled Labour	87155	9.51	70.1	6.32	80
Fishing	29597	3.23	38.5	3.40	130
Fish Trade	14725	1.61	18.7	1.69	127
Exploration of minerals	2056	0.22	2.9	0.26	141
Textile Industry	88132	9.63	78.2	7.05	89
Wood Industry	41145	4.50	43.9	3.96	107
Metal Industry	11544	1.26	17.4	1.57	151
Ceramics Industry	5352	0.58	8.6	0.78	161
Others	55515	6.06	74.4	6.71	134
Transport	32742	3.58	49.7	4.48	152
Trade	120239	13.13	235.4	21.24	196
Public Administration	17710	1.93	58.8	5.30	332
Professions and Liberal Art	56465	6.17	139.4	12.58	247
Miscellaneous Occupation	43751	4.78	56.8	5.12	198
Total	915639	100.00	1108.50	100.00	

Source: Census of Travancore, 1931.

As is clear from Table 3.24, the percentage of population falling under the category of 'No land' was as high as 45 per cent, during the inter-war period. About 35 per cent had only less than ½ acre of land. Thus these two groups together accounted for about 80 per cent of the population. The category 'more than four acres' had 3.7 per cent of population. Concentration of land (the most important form of wealth) was, thus very high in food crop sector, not to speak of the plantation sector where concentration of land was the rule, rather than exception.

The growing trend of pauperisation was also reflected in the emigration of people to other states during the forties. About four per cent of the total population had gone out of the state seeking job opportunities.[112] Even tens of thousands of men were recruited for various services related to war.[113] All these point to the increasing rate of marginalisation in the economy.

The marginalisation of the people and the over growth of the tertiary sector have to be viewed in relation to the stagnation in the productive sectors of the economy, i.e., agriculture and industry. Not that the export-oriented sectors offered no job opportunities but it was at the expense of the indigenous manufacturing activities and the food-

Table - 3.24

Size of Landholding (Food Crops)

Category	Percentage of population
No land	44.60
Less than ½ acre	35.00
Between ½ and 1 acre	9.00
Between 1 and 4 acres	9.68
More than 4 acres	3.70

Source: George Kristoffel Lieten, "Nature of Travancore Economy Between the Two World Wars", Journal of Kerala Studies, March 1975.

crop agricultural sector that the export-import trade of Travancore prospered.

In the early years of the twentieth century itself, there were references to the destruction of indigenous industrial activities. The Census of Travancore 1901 describes the indigenous industries as "fastly giving way before the aggressive energy of foreign competition".[114] The cotton-weaving industry which absorbed a large number of workers was facing serious threat from foreign clothes. Even as early as 1891 there were references to competition from imported clothes. As the Census of Travancore 1891 reports "the universal complaint among the patnuls and Shaliyars all over the land is that their bread is taken out of their mouths by the machine made clothes of Europe".[115] There are also references to the short-lived small-scale weaving establishments coming up under local initiative in Travancore during the first two decades of the 20th century which were closed down subsequently.[116] The point is that the export-orientation of the state's economy created certain distortions which eventually resulted in the marginalisation of its people.

A few more points need to be mentioned with respect to the disarticulated development of the economy in relation to its overall export-orientation. In an earlier section, the export-oriented nature of the development of education and transportation has been discussed. While analysing the components of total expenditure of the state during the twentieth century, the striking point that catches attention is that it was 'Education' that took away the major chunk of the total state expenditure upto the forties, forming about 16 - 20 per cent of total expenditure.* As was evident from the earlier discussion, the evolution and growth of education was in consonance with the requirements of the plantation and related export trade. The volume of government investment was closely related to the export of cash crops, which is borne out by looking at the major item of government expenditure viz., education.[117] The education system was such that it only helped to give birth to a vast section of clerical cadre which was necessary to assist the plantation owners and the like, and to serve in the government department. Technical institutes were almost absent in the state, indicating the industrial backwardness of the region.

The development of transport facilities took place in Travancore exclusively to cater to the export-import trade. By the end of the colonial period, Travancore had its own ports, railways and roads. The most peculiar feature of the

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*During the forties(from 1942 -43 onwards) the major component of state expenditure was "Post-war Reconstruction Fund" which constituted around one-fourth of total state expenditure, education having a share of around 10 per cent. See Travancore Administration Report for the relevant years.

transport system of Travancore is that all the important roads started from the eastern hills and converged on the ports, which were undoubtedly to foster the export-import trade. Till the late thirties, 'Public Works' was the second largest component of state expenditure, as revealed from the survey of the Travancore Administration Reports. It showed a declining trend, from 23 per cent in 1900-1 to 12 per cent in 1938-39.[118] This may be due to the fact that by the twenties and thirties, a large net work of transportation was already developed. The opening of the Neriamangalam bridge across the river Periyar in 1935, the largest one in Travancore, was treated as constituting the last stage in the great task of providing communication between the High Ranges and the West Coast.[119] Though water ways connecting the port of Cochin with Travancore and Malabar had developed earlier, the modernisation of the port of Cochin in the late twenties witnessed a parallel growth of road and rail systems around the area during the same period.[120] It is worthwhile to note that a road connecting Munnar and Cochin for taking the products of the High Ranges to the port was opened up only by this time. The hill products until then were exported through the far-away Tuticorin Port on the East Coast.

Though Travancore, thus, had a fairly developed transport system, as pointed out in the Economic Review of 1961, it was found inadequate and backward, to facilitate industrialisation.[121] The development of transport which involved "problems of technical and administrative organisation and research", and "a co-ordinated and integrated" approach was not adequately recognised at the time of its export-oriented evolution and growth.

It follows from the foregoing analysis that the economy of Travancore developed as an export-oriented one under colonialism, with the result that all the spheres of the economy developed catering to the export sector.

Almost all the industries established during the colonial period were export-oriented, both in the traditional and the modern sectors. The export-orientation of the industrial sector blocked any possibility of the establishment of linkage industries.

This pattern of development further resulted in a lack of coherence among different sectors of the economy. Thus, instead of each sector supporting the other sectors in the process of development of the economy, all the economic activities centred around export trade, totally neglecting the question of industrialisation.

Except during the forties, the major chunk of the government expenditure was on education and public works, which developed in response to the needs of the export sector. Thus the bulk of the resources of the economy was utilised mainly to carryout export trade, which in effect not only neglected, but even destroyed the food crop agricultural sector. As far as the industrial sector is concerned, the traditional sector exhibited the characteristics of petty commodity production, with the trading interests having control over it. The grip of the colonial trading capital and the nascent trading capital over the traditional industries was the major factor hindering their successive development into higher stages of capitalist production. In contrast, the modern sector had not its roots in the local economy. It was a mere super-imposition from outside.

The lack of complementarity among different sectors (especially between agriculture and industry) on account of the overall export-orientation of the economy had come to stay by the end of the colonial period. How this trend persisted and even got accentuated during the subsequent decades together with the influence of internal factors blocking the industrial development of the state is the subject matter of the next chapter.

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Chapter IV

INDUSTRIAL BACKWARDNESS OF KERALA: THE POST-COLONIAL SCENARIO

We have noted in some detail in the last chapter the evolution of the colonial economy of Kerala with its main feature as outward orientation. The history of industrialisation in the state, however, does not come to a sharp break with the dawn of independence. One does not see any fundamental difference in the industrial structure of Kerala during the pre-as well as the post-colonial period, though certain superficial changes have some about in the latter period. In fact the policies of the Central and State Governments have only helped to reinforce the prevailing structure. The purpose of the present chapter is to identify the more recent developments in the Kerala economy towards export-orientation, and the resultant industrial backwardness. This chapter has three sections: the first deals with the industrialisation strategy and experience of the Indian economy in a cursory manner; the extent of export-orientation of the traditional and modern sectors are examined in the second section; and an analysis of the nature and activities of the indigenous entrepreneurial class forms the last section.

A. <u>The Industrialisation Strategy of India</u>

By the exit of colonialism, the political structure of Kerala has undergone a major change, the state becoming part of India. Hence any change in the industrialisation pattern of Kerala has to be understood within the broad framework of Indian industrialisation policies. A brief discussion on Indian industrialisation efforts is, therefore, carried out in this section.

The Import-Substitution Industrialisation Strategy (ISI) formulated by Nehru and Mahalanobis had germinated in the thirties itself and was reflected in the Bombay Plan and in the National Planning Committee formed in 1938. The National Planning Committee had observed that national production was to be primarily destined for the home market.[1] There are other factors also, generally applicable to a number of ex-colonies, acting in favour of adopting a strategy of import-substitution industrialisation.*

It will be useful to note the experience of ISI in the Indian context, which as a matter of fact, differed little from the experience of other underdeveloped countries which also had experimented with the ISI.[2]

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*The loss of export markets due to War and Depression, associating colonial status with export of primary products, the experience of Soviet Union in industrialisation etc. played crucial role in forcing many newly independent countries to follow ISI. See World Development Report, 1987, p. 45.

In India, it was the elite-oriented consumer goods industries that found the prime place under ISI. A major reason for this was that import substitution took place basically in luxury consumption goods.[3] This is observed in all the countries following ISI where the process of import-substitution began with commodities that offered the best prospects of profit, that is those which were bought by the wealthiest consumers. A second reason was the lack of purchasing power of the vast majority of the people. This lack of purchasing power could be traced to the relatively change-resistant agrarian social structure that prevailed in the country. In other words, feudal relations of production still persisted in the agricultural sector along with extreme concentration of ownership of land in a few hands.*[4] This bottleneck imposed serious constraints on the industrialisation process to centre around luxury consumption goods, which in turn necessitated dependence on foreign technology brought in largely by the multinational corporations(MNCs). The MNCs did not leave any stone unturned to grab this golden opportunity.[5]

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*As Prabhat Patnaik observes, "The chief barrier to agricultural growth has been the structure of agrarian relations. Extreme inequality of ownership and operation generally leaves the bulk of the farmers with neither the means nor the incentive to invest". Prabhat Patnaik, "Imperialism and the Growth of Indian Capitalism" in Studies in the Theory of Imperialism(ed) by Roger Owen and Bob Sutcliffe 1972, p.219.

Another feature of the ISI was the import of intermediate goods along with the import of technology.* The reliance on the import of intermediate goods was such that the ISI eventually became an "import-dependent"[6] ISI. Thus the ISI which was suggested as the remedy for the lack of foreign exchange became the cause of acute foreign exchange crisis on account of the drains in the form of profit, royalties, dividends, technical fees etc.**[7]

Even in the sphere of employment generation, the ISI was a failure, as was the case with other third world countries also. From a study on the growth of manufacturing industry and employment in selected countries for the period 1950-60, the annual growth rate of output in India was found to be 6.8 per cent while that of employment was only 3.3 per cent.[8] By the mid-sixties, unemployment became a permanent feature of the Indian scene.[9] The low rate of

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* The magnitude of foreign technology imported into India can be had from the number of collaboration agreements concluded between foreign and Indian manufacturers. "Between 1956 and 1965 as many as 2134 new foreign collaborations besides 115 renewals have been approved by the government. By 1975 the total number of collaborations reached the staggering figure of 4440", observes K.K. Subrahmanian and P. Mohanan Pillai, op.cit., p. 78.

** Michael Kidron in a penetrating analysis estimated that during 1948-61, the foreign investors as a whole had taken out of India's general currency reserves three times as much as they had directly contributed. See his book, "Foreign Investments in India", p. 310.

labour absorption should be seen in the context of the kind of technology used in the import-substituting industries. That is, the technology imported was generally capital-intensive and labour-saving, which was beneficial only to the producer country. The obvious consequence of such a technology transfer was aggravation of unemployment.[10]

What was more disappointing was the induction of foreign technology in non-essential consumer goods. In allowing foreign collaborations there was no screening as is evident from the innumerable collaborations permitted in the manufacture of crockery, lipsticks, cosmetics, tooth paste, sports goods etc.[11] At the same time, the technological base of the Indian industrial sector remained underdeveloped as pointed out by the Ramaswamy Mudaliar Committee Report (1968).[12]

It is a fact that India could set up a number of heavy industries by the mid-sixties. Besides their dependence on foreign technology, their geographical distribution was also uneven. Most of the industries were established in and around the already developed industrial centres (or port towns) such as Bombay, Calcutta and Madras which had grown up during the colonial period.[13] This distortion in the industrial structure continued during the later period also resulting in the enclave-type industrial development.

Export Promotional Measures

Along with the ISI, India also pursued an export promotion strategy in view of the foreign exchange requirements arising from large imports. Each plan had stressed the importance of export promotion and had created the necessary institutions for the same purpose. During the Second Plan Period, a Foreign Trade Board (1957) was set up in order to promote exports which was later replaced by the Board of Trade in 1962. Nineteen Export Promotion Councils with an apex body federation of the export organisations and Seven Commodity Boards were set up. Seven Development Councils were also organised to promote exports of heavy and light electricals, leather goods, art silk, drugs and some non-traditional items.[14] During the Third Plan Period (1961-66) export promotion programme was further strengthened in terms of institutional structure, incentives and other policy measures.*

The institutional support to the export promotion was further strengthened during the fourth and fifth plan periods. The Trade Development Authority (TDA) was set up in the late sixties to induce and organise medium and small-scale entrepreneurs to develop their export potential. Package assistance

*The Mudaliar Committee (1965) recommended that a selective approach should be adopted in respect of export incentives, fixation of minimum and maximum prices, quality controls, inspection etc. designed to promote exports as a long-term strategy. See V.A. Avadhani, op. cit., p. 81.

was provided to them by TDA starting with market information upto execution of export orders. Similar assistance was provided to small-scale entrepreneurs by State Trading Corporation (STC) under one window. It may be noted that STC and MMTC (Metals & Minerals Trading Corporation) are channelising agencies for a number of import and export items and are entrusted with export promotion activities.*[15]

"Over the years, the range of export incentives have tended to grow", observes Amaresh Bagchi.[16] Among the various heads under which subsidies are provided out of the Union Budget, the most important single item next to food is the 'Export Promotion and Market Development Scheme'. Amount spent on promotion of exports currently works out to over a quarter of the subsidies paid by the centre. In 1975, for every million(U.S.) dollar of exports, export promotion expenditure in India was over $39,000 as compared to a little over $2000 in U.K., $1148 in Italy, $564 in Japan, $514 in France and $316 in Canada.[17]

In spite of these high incentives given to exports, India's export trade never showed any improvement. Her share

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*In the field of foreign trade, in addition to TDA there are a number of other institutional agencies like Indian Institute of Foreign Trade (IIFT), Trade Fair Authority of India(TFAI), and Indian Institute of Packaging (IIP), all intended to promote exports. See Avadhani, op.cit., p.141.

of world exports declined from 0.98 per cent in 1965 to 0.45 per cent in 1988.[18] Similarly the proportion of exports to national income also showed no notable growth over the years. It was about eight per cent in 1951-52 and it fell to 4.4 per cent in 1971-72, but rose again to around eight per cent in the seventies and in 1986-87 it stood at six per cent.[19] The dismal performance of the export sector, in spite of a number of incentives, has been explained in the context of the comparatively greater concessions/protection given to the import-substituting industries in some studies.[20]

Apart from the ISI strategy and the export promotional measures adopted by the Government of India, there is discernible a gradual advance towards the policy of Export-Oriented Industrialisation (EOI), by the late sixties and early seventies. By the mid-sixties, in the light of the failure of ISI in almost all the countries, an export-led strategy for the underdeveloped countries was advocated.* However, this time the pattern of exports was not that of the colonial period. It was the manufactured exports that

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*The United Nations Industrial Development Organisation (UNIDO) characterised EOI as a "step towards inter-dependence between the rich and the poor countries, and a hopeful sign that MNCs and developing countries can work together for mutual benefits", Quoted in L.M. Rodricks, op.cit., p. 106.

was targetted. The significance of such a shift in emphasis becomes clearer, when viewed against the background of the technological advances at the global level, in the spheres of transportation, communication and information favouring an international division of labour. The availability of cheap labour in the third world countries along with the possibility of decomposition of complex production processes into elementary units in the context of technical advances in transportation etc. paved the way for transplanting modern industries into the third world countries. This is the guiding principle underlying the so-called EPZs/FTZs of the South East Asian countries.

It is here that the setting-up of the first FTZ of Asia in India assumes significance. The first FTZ in Asia was established in 1965 near Kandla in Gujarat which became a model for the subsequent ones of South East Asian countries.[21] Following this, a number of EPZs came to be established in India during the seventies and eighties.* The major features of the EPZs of India were the same as those of the East Asian EPZs.[22]

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*In September 1974 the Santa Cruz Electronics Processing Zone (SEEPZ), a uniproduct zone in electronics was established. Four more EPZs were set up in the eighties, at Falta in West Bengal, Noida in U.P., Meenambakkam Airport T.N. and at Cochin in Kerala, all guided by the same principle.

The thrust towards EOI is further manifested in some other measures also taken by the Government of India. For example, in the late sixties, the IIFT was entrusted to undertake a comprehensive survey of the export potential of each state and it presented its report in the early seventies.[23] In 1972, the Government of India permitted to establish wholly owned subsidiaries of foreign companies giving them a large number of incentives, which were supposed to be export-oriented. An impression was created all over India that if India followed the strategy of EOI, it would result in the easing of domestic and external tensions by removing unemployment, boosting export earnings, easing trade deficits, eliminating the over-reliance on the export of a few primary goods and ending balance of payments crisis for ever.

By the end of the seventies, the Central Government felt that an indepth study of the future export strategy had become necessary in the context of the developments in the international economy. In 1979, the Janata Government set up a committee headed by P.L. Tandon to formulate a long-term strategy and perspective plan for exports during the eighties. The Tandon Committee Report released on 15th January 1982 emphasised a number of concessions for encouraging investment in export production. It contained a number of recommendations in regard to important export-oriented industries like electronics, leather goods, gems and jewellery, chemical products, textiles and sports goods.[24] It recommended a coordinated working of the (Export-Import) EXIM Bank, Export Credit Guarantee Corporation (ECGC), Reserve Bank of India (RBI) and Commercial Banks to boost exports. It was in accordance with the Tandon Committee Report that the government established four new EPZs during the eighties.[25] In the mid-eighties, the government appointed the Abid Hussain Committee to suggest ways to increase the volume of exports. The Hussain Committee underlined the need for a 'quantum jump' in exports.[26]

These years also witnessed an increase in the number of foreign collaborations. According to a U.N. Report, India ranked first in respect of the number of foreign collaborations.[27] In 1989, the rate was 1000 collaboration agreements per annum. According to one observation, "the official policy has swung unreservedly to dependence on direct foreign investment, imported technology and foreign collaboration".[28] And the export-oriented industries of the modern variety were such that "components and parts are planned to be supplied by MNCs and assembled into the final product by Indian labour. This is what the "screwdriver" technology being transferred by foreign companies to Indian business partners is really all about".[29]

What needs to be stressed is that, during the early decades of planned industrial development, India had pursued a policy of import-substitution along with export promotional measures. But by the seventies, a gradual shift towards export-oriented industrialisation has taken place and is increasingly being adopted now, as is reflected from the latest industrial policy. Moreover, under the policies of both ISI and EOI, it is the MNCs that have gained most. In other words, both ISI and EOI are promoted and taken advantage of by the MNCs in India, as is the case with other third world countries.

B. The Extent of Export-Orientation in the Post-Colonial Industrialisation of Kerala

It is within this broader framework of Indian Industrialisation strategies, that the Kerala experience in industrialisation has to be analysed. The stamp of being an export-oriented economy was there with Kerala even during the fifties itself.[30] As has been discussed in the previous chapters, whatever productive base was there, had been structured to serve the needs of foreign markets and metropolitan centres within India. Any productive investment and reinvestment of capital that took place in traditional as well as infant modern industries prior to 1947 had been along these lines. However, compared to the colonial period, in the post-colonial period the export-oriented pattern of industrialisation becomes more manifest and pronounced as it is linked with the rationale of national and international strategies of industrialisation.

The industrial structure of Kerala witnessed no significant change during the fifties. The most important industries of the state continued to be cashew, coir, saw mills, bricks and tiles, wood works etc. The major export items also were tea, cashew, pepper and coir during this period.[31] In 1959-60, the total value of exports from the ports of Kerala amounted to Rs.101.6 crores of which plantation products (32 per cent) and cashew and coir products (23 per cent) constituted more than 50 per cent.[32]

As high as 72.7 per cent of Kerala's factory labour was engaged in agro-based industries in 1955-56, according to the estimates of the Techno-Economic Survey.[33] The cashew industry alone accounted for about 40 per cent of total factory sector labour force. Moreover, the industrial scene was dominated by small-scale and cottage units. Of the total industrial workers of 9.7 lakhs, about 80 per cent was absorbed by the non-factory industry (small-scale and cottage sector). Also the share of this non-factory sector in the total net value-added was 64 per cent (32.3 crores) of a total of 50.3 crores.[34] It is significant that a fairly high proportion of Kerala's working force (19.3 per cent) was engaged in the secondary sector compared to that of India (9.4 per cent). But this need not be taken at its face value. A further look at the data reveals that most of the secondary sector employment was in technologically backward cottage industries which could provide only a few days of employment in a year.[35] (See Table 4.1).

The industrial stagnation of Kerala upto the mid-sixties was usually attributed to a number of reasons. The formation of the State of Kerala took place only in 1956. By this time the Government of India had already completed its First Five Year Plan. The Industrial Policy of 1956 assigned a strategic role to the heavy industries. Kerala was at a disadvantage to start such industries on account of the lack of relevant raw materials. The State Government also could not shoulder its responsibility as entrepreneur. The state suffered a severe loss of a major source of income - the customs duty - when the state was got united to the Indian nation.* Moreover, political instability was the hallmark of the state until the early sixties, which also acted as a binding factor for state initiative in industrialisation.[36]

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*This manifests the region's complete dependency on export trade to raise the necessary income to finance the government expenditure.

Table - 4.1

Percentage Distribution of Factory Employment in Kerala According to Industries: 1958-59

	Industry	Percentage share of employment
1.	Food (except beverages) (cashew etc.)	48.1
2.	Electricity, gas and steam	0.1
3.	Transport Equipment	2.6
4.	Electrical appliances and supplies	0.2
5.	Machinery (except electrical)	1.9
6.	Metal Products (except machinery and transport equipment)	0.5
7.	Basic metal industries	0.7
8.	Non-metallic products except Petroleum (bricks and tiles etc).	8.1
9.	Petroleum and coal	0.4
10.	Chemicals and Chemical Products	2.5
11.	Rubber and Rubber Products	1.4
12.	Leather and leather products (except footwear)	0.0
13.	Paper and paper products	0.6
14.	Footwear, other wearing apparel etc.	0.7
15.	Wood works and furniture	6.6
16.	Printing, Publishing and Allied Industry	2.3
17.	Tobacco	2.0
18.	Textiles(including coir, jute etc.)	20.4
19.	Others	0.9
	All	100.0

Source: Economic Review, p. 72.

Though most of the above-said factors ceased to operate during the following decades, no positive changes took place in the industrial sector of Kerala (see Table 4.2). The only advances the industrial sector of the state have made so far were confined to two or three spheres. The share of the registered sector has now outstripped the unregistered sector in the value-added by manufacture.[37] Further the relative importance of some traditional industries was reduced and modern industries increased. For instance, ranks of cashew, coir, tiles, printing and rubber products came down on the value-added scale, while petroleum refining, ship-building and electrical machinery (including electronics) moved up.[38] But still, Kerala's industrial scene is dominated by small-scale and village industries mostly in the unorganised sector. Kerala topped in the country with regard to small factories and non-household enterprises both in 1961 and 1981 constituting 38.5 per cent and 56.9 per cent respectively, of the total employment.[39]

Before going into the details of export-orientation of the industrial sector, and the economy in general, one point should be made clear. Measuring export-orientation purely in terms of certain quantitative indices alone will be deficient and misleading. (Table 4.3 gives an idea about the quantum of exports from Kerala). For example, there is a

Table - 4.2

Percentage Distribution of Factory Employment and Value-Added in Kerala According to Industries: 1981

Industry	Percentage share of employment	Percentage share of value-added
Food Products	38.96	9.39
Beverages	7.16	3.17
Textiles	6.66	7.16
Wool, Silk, Synthetic	0.73	1.05
Jute Textiles	--	--
Textile Products	2.04	3.40
Wood and Products	5.14	2.61
Paper and Products	3.54	4.99
Leather and leather Products	--	--
Rubber, Petroleum etc.	2.94	9.92
Chemical and Products	5.89	17.62
Non-metallic mineral	5.25	3.83
Basic metal and alloy	1.30	2.82
Metal Products	1.21	0.92
Non-electric machinery	1.33	1.16
Electrical machinery	2.77	7.08
Transport equipment	1.77	2.31
Other manufactures	0.62	1.27
Electricity	10.32	18.39
Repair services	2.26	2.12

Source: Calculation based on data from ASI, 1980-81. Cited in K.K. Subrahmanian and P. Mohanan Pillai, op.cit., p. 582.

tendency to believe that Kerala has been taking a deviation from the export-oriented development path, on account of the declining share of exports from Kerala as a percentage to the all India exports. It is true that the export share of Kerala in the total exports of India declined from 12 per cent in the end of the seventies, to eight per cent by 1982-83 and further to 4.65 per cent by 1989-90.[40] There could be cited a number of reasons for this declining trend. The non-availability of accurate data has been a major problem. For the data on exports of Kerala, one has to depend totally on the data from major ports of the state. The quantity and value of commodities taken out of the state through road and rail and that portion which are re-exported from other states are not available. "A part of the explanation for the decline in the exports from Kerala has been the diversion of traffic traditionally routed through Cochin Port to the ports of Tuticorin and Madras".[41] There can be other reasons also for the decline of the export share of Kerala such as (1) the inefficiency of the export promotional measures adopted* (2) the increasing share of other items produced in other parts of India (3) the decreasing values of major items of Kerala compared to other items exported from the rest of India and so on.

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*According to the Export Potential Survey of Kerala(1986) the export performance of the State Corporations was not upto the mark, basically due to lack of export information regarding markets, product development prices and import regulations of importing countries. See 'Export Potential Survey of Kerala 1986', p.35.

Against this background, it will be useful to describe the major export-oriented industries of the traditional sector and the modern sector in Kerala, in a brief manner.

The Traditional Sector

1. Coir Industry

The major features of the coir industry that were observed in an earlier context, continued to be the same and are so even today. It is one of the most important industries of Kerala employing about 4.3 lakh people. It is the second largest source of employment for the rural poor after agriculture. This industry continued to be an export-oriented one, though the export performance is not very impressive. The reduction in the share of exports is on account of the shrinkage of demand for coir products in U.K. traditionally the largest market for coir products.[42] The principal factor influencing the demand for coir products has been the change in the market tastes and preferences of western consumers.[43] Thus though an industry, the coir sector shares the same fate as those of export-oriented primary commodities of the third world which are price-takers only.

The notable change that has taken place in the coir industry during a span of forty years is its disintegration into cottage industries. The disintegration of factory production into petty commodity production was completed by mid-sixties and this should be viewed in the context of transfer of ownership from the hands of Europeans to the natives. The cottage system is maintained by the practice of employing female labourers (about 80 per cent) and adopting the piece-wage system. All these are indicative not of developed capitalist production, but of the putting-out system* that prevailed in England, under the control of merchant capital. The investors of the coir industry never showed any character of the capitalist class. They were only traders who were incapable of becoming inventors and innovators. For them, technical improvement or mechanisation meant only import of technology. The very nature of the organisation of production and reliance on export markets have prevented this industry from attaining higher stages of production.

Primarily meant for external markets, the coir industry was incapable of generating linkages with other industries, and consequently it remained an enclave in itself.

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*Putting-out system: One which preceded the factory system. The workers worked at home and were supplied with the necessary raw materials by merchants who travelled round to collect the finished products. See S.K. Ghosh, op.cit., p. 67.

Table - 4.3

Major Items of Export from the Ports of Kerala

(Value in Rs.Lakhs)

Sl.No.	Items	1951-52	1960-61	1969-70	1978-79	1990-91
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Bricks and Tiles	53.21	43.18	0.14	--	--
2.	Cardamom	25.01	76.97	367.38	581.00	213.00
3.	Cashew Kernels	920.03	1693.57	5396.11	7569.00	39183.00
4.	Cashew Shell liquid	58.13	48.53	72.94	--	--
5.	Coffee	36.38	327.26	895.59	5009.00	7970.00
6.	Coir Yarn and fibre	555.82	516.44	762.03	2740.00	2825.00
7.	Coir products	311.50	301.33	546.67		
8.	Cardage and rope of vegetable fibre	13.26	1.22	0.03	--	--
9.	Fish and Prawns	47.66	191.04	2597.21	9871.00	31744.00
10.	Ginger	28.08	66.84	95.99	905.00	785.00
11.	Hides and Skins	--	20.31	2.41	--	--
12.	Jute & Jute Products	34.19	10.38	1.48	--	--
13.	Metals, Minerals and Oils	29.37	106.66	80.76	--	--

(Contd..)

(Contd...)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
14.	Manure meals	--	61.36	--	--	--
15.	Lemon grass oil	128.06	200.76	95.40	--	--
16.	Sandal wood oil	--	20.73	6.68	--	--
17.	Other vegetable oil	--	3.94	2.27	--	--
18.	Oil cake	--	4.75	11.53	--	--
19.	Pepper	1778.50	723.90	1558.46	2736.00	9997.00
20.	Rubber manufactures	--	0.40	18.37	--	--
21.	Tea	1560.25	2069.83	2474.60	6335.00	3002.00
22.	Turmeric	3.38	15.00	91.73	--	--
23.	Rose wood	8.53	173.96	554.49	--	--
24.	Other kinds of wood	59.44	9.27	26.27	--	--
25.	Wood manufactures	2.02	0.58	15.80	--	--
26.	Others	105.17	283.70	1041.80	--	--
	Total	5757.99	6971.91	16716.14	43156.00	131450.00

Source: 1) Cochin Chamber of Commerce and Calicut Chamber of Commerce, 1951-52 and 1960-61.
2) D.G.C.I.S. (1969-70) and
3) Economic Review, 1979 and 1991 for 1978-79 and 1990-91.

On the whole, all the negative trends which were noticed in the forties became more pronounced during the subsequent years, trapping coir industry in a vicious circle and converting it into a 'sun set' industry.

2. Cashew Industry

The cashew industry occupies a prominent position in the industrial map of Kerala. It employs about 40 per cent of the total (organised) industrial population. It is almost similar to coir industry in terms of the nature of organisation, production, dependence on export markets, technological backwardness and related problems. The growth of cashew industry from the cottage-level to factory type and its later disintegration to cottage and household industry are not symptomatic of capitalist industrialisation. On the contrary, "even the factory system was only a convenient organisational form for the effective control of workers and work processes in a single place".[44]

Many of the characteristics of cashew industry have close similarity with those of the coir industry. The small scale of operation under cottage industry, the preponderance of female labour (about 94 per cent) and the piece wage system of payment all have become the traits of this industry also.

Cashew industry, the most important item of export from Kerala, is crisis-prone in the sense that it has become increasingly difficult to secure foreign markets year after year. Moreover, competition from other third world countries has been increasing over the years. Added to the marketing problem is the problem of the non-availability of raw materials. Despite this industry's pre-eminent position in Kerala, it imports over 50 per cent of its cashewnut requirements, mainly from East Africa. The seriousness of this problem becomes more pronounced, as the factories often have to be closed down because of insufficient availability of raw cashewnuts. To add fuel to flames the cashew-processing industry has started shifting to the neighbouring states where labour is more cheap.[45] The plight of the industry in the fifties was described by the NCAER as follows: "An industry which depends for a major portion of its raw materials as well as markets on foreign countries has necessarily got to fear insecurity".[46] This observation is all the more relevant today.

3. <u>The Handloom Industry</u>

The handloom industry provides direct employment to about 1.5 lakh persons and indirect employment to 1 lakh persons. The industry is concentrated in North and South of Kerala, and there is considerable variation between the industry in North and South. While in the South (Trivandrum) the industry was essentially a nascent effort catering to internal market, that in the North (Cannanore) was established by foreign entrepreneurs and catered to foreign markets.[47] This difference was reflected in the organisation of production and technology. The industry at Cannanore was relatively more organised while that at Trivandrum was decentralised. The industry of North Kerala attained the specific features described above due to its long association with the Basel Mission Industries.[48]

In value terms, the export of handloom products is not very significant in the total exports of Kerala, the value being 3 to 4 crores of rupees.* But the export-orientation industry is noteworthy, especially by the seventies. The revamping of export-orientation coincided with the system of subcontracting. "Increase in wage-cost coupled with the export-oriented nature of the industry brought about a fundamental change in the organisation of production, which was now based on the subcontracting system".[49] It is also

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*The export figure is an underestimate. This is so because, a direct exporter from Kerala may channel part of his exports through firms registered outside Kerala. Also a number of producers in Cannanore do not engage in direct exports at all; instead, they rely upon exporters based on metropolitan cities. See Rajagopalan, op.cit., p. 78.

pertinent to note that while women constituted 13 per cent of the workforce in 1931, by the 70s the industry came to be dominated by women.[50] The period of re-orientation towards exports also witnessed another phenomenon; i.e., there occurred a decline in the number of workers by 23 per cent during 1962-74. Thus all the characteristics common to coir and cashew were found in the case of handloom industry also. As in the case of cashew, the raw material for the handloom industry also has to be imported (from the neighbouring states).

The uncertainities of the market often result in accumulation of unsold stock, and it has become a major problem to this industry. Scarcity of raw materials and competition from the mill sector are the other threats this industry faces.

4. Tea Industry

Tea, one of the major items of export and employment generator of Kerala has been developed in the state exclusively as a result of European interests.[51] But even after forty years of independence, this industry continues to serve British interests. Though part of its product is marketed internally nowadays, this industry still keeps its colonial heritage.* "The greatest contradiction from which the Kerala tea industry and the Indian tea industry as a whole suffer is that while certain factors have changed, the foundation of the industry in the sense of foreign interest-remain almost unchanged".[52]

Regarding organisation of production, no fundamental change occurred in the industry for the last several years. Though capitalist production relations appear in form, the pre-capitalist tendencies still prevail in this industry.[53]

5. Fish-Processing Industry

The fish-processing industry assumes importance in the industrial sector of Kerala, as the growth of this industry occurred in the post-colonial period, as distinct from the other traditional export-oriented industries. It is not that fish was not an exportable commodity during the colonial period. From the fifties onwards, with the assistance of Norwegian Technology the industry has become exclusively export-oriented.[54] What makes this industry unique is the

*Even as late as eighties, almost 85 per cent of the retail distribution of tea in India is controlled by two MNCs, Liptons and Brooke Bond. See, Som Deo, "Multinational Corporations and the Third World", Ashish Publishing House, New Delhi, 1986, p. 114.

assistance and encouragement it got from the Central Government, even when fisheries was a state subject.*

The development programme envisaged for the fisheries sector was a part of the U.N. Expanded Programme for Technical Assistance which was seen as an avenue for post-war reconstruction and development assistance to the newly independent developing countries. The Indo-Norwegian Project (INP), as the development programme came to be known, was the first of its kind.[55] Thus the fish-processing industry assumes much importance as this got the technical assistance of a foreign country under the aegis of the U.N.

By the late fifties and sixties, a tremendous opportunity of export of frozen shrimps and prawns came up and, the Central and State Governments along with a new class of entrepreneurs participated in the 'pink gold' rush. The Central Government offered its blessings as part of its own attempt to boost foreign exchange earnings.[56]

The prawn export euphoria had its immediate effect on state policy reflected best in the state's plan expenditures during the period 1961-69. Of the total Rs.110 million

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*Feeling the necessity of formulating a national fisheries policy, an exercise of sorts was conducted in 1946 by the National Planning Committee. They called for the need to adopt modern techniques, the creation of a fisheries bureaucracy and a string of scientific and research institutions to form the basis for modernisation of the sector (John Kurien, op. cit., p. 9-10).

spent on fisheries development during this period, Rs.92 million (about 84 per cent) was spent for export-oriented fisheries.*[57]

What is even more interesting is the entry of a new class of entrepreneurs - more powerful merchant capitalists- into the 'pink gold' rush. This class made their entry into the fishing sector not only by the strong price impulses in the late fifties and early sixties, but also as a response to crises in the trade in other commodities such as cashew, in which they had been traditionally involved.[58]

As in other export-oriented industries, here also production was organised on the basis of cottage industries, using female labour and piece-wages.[59]

The export-orientation of the fishing sector has already made an adverse impact on the fish economy. Mechanisation of boats in the context of export-orientation and their increasing use in deep-sea fishing has on the one hand, upset the ecology itself posing threat to the very survival of fish; and on the other, become a constant cause for the conflict between

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*John Kurien, has calculated that for the Rs.92 million spent towards export-oriented fisheries between 1961 and 1969 by the State Government, an export value of only Rs.909 million was realised between 1962 and 1969. Compared to this, for the Rs.8 million spent on the sector intended for internal marketing, fish worth of Rs.542 million was harvested (John Kurien, p. 30).

traditional fishermen and those depending on the mechanised sector. As in the case of other traditional export-oriented industries this industry also has been incapable of creating linkages and transforming itself to higher levels of capitalist production.

Thus, all the five major export-oriented traditional industries surveyed, are in the midst of crises. These industries are usually termed 'sunset industries', as they offer no hope for any development. None of these industries has developed any forward or backward linkages.* Moreover, it has done considerable harm to the ecology, where fish-processing and plantations are cases in point. Though a major portion of the industrial workers are employed in these

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*The export-orientation and lack of linkages of the plantation sector has been empirically proved in the work of Umadevi. She has considered tea, coconut, rubber, coffee, pepper, cashewnut, banana and cardamom as plantation products. Included among the industries dependent on the plantation sector, therefore are coir and coir products, tea, coffee and cashew processing and the manufacturing of edible oil. She has tried to find out the linkage effects of the plantation sector in the economy of Kerala and has come to the conclusion that neither the plantation sector nor the industries based on it could be considered as key sectors. Therefore, the rapid growth of the plantation sector might not be able to provide a growth stimulus to the economy (Umadevi, "Plantation Economies of the Third World", Himalaya Publishing House, 1989, p. 261).

industries, most of them fall outside the purview of the Factories Act. This fact, together with the preponderance of female labour in these industries has forced these workers to work in untidy and inhuman conditions, at comparatively low wages. Moreover, the seasonal or temporary nature of employment makes their plight even worse. In this context, even the growing tendency of recruiting more women labourers has to be viewed as a tool to exploit the workers. As was observed in another context, "female labour . . . . gets integrated with it (the industrial sector) in new and complex forms. Such integration, in fact, is exploitative and is against the interests of these workers".[60] The lack of forward linkages and the instability in employment are clearly the end results of the export-orientation of these sectors. If at all any backward linkage had been established, it only helped to create disarticulated development in the whole economic system as in the case of tea or, the plantation sector in general. The growth and development of plantations took place at the expense of food crops agriculture thereby making the state dependent on import of about 60 per cent of its total requirements of foodgrains.* The observation made by E.M. Sankaran

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*In 1987 about 64.7 per cent of Kerala's requirement of foodgrains was met from the Central pool and in 1988 the Centre's contribution to Kerala's foodgrains requirement was about 63.3 per cent. See P.V. Rajeev, "Socio-Economic Change and Regional Development", Deep and Deep Publishers, New Delhi, 1991, p. 58. Since firm data on the import of rice into the state by private trade is not available, inflow through this source is not reckoned.

Namboodirippad, the then Chief Minister and Chairman, Planning Board, while speaking on the draft outline of the Fourth Five Year Plan (1969-74) is worth mentioning in this context: "The chronic food deficit of the state is largely the result of the bias given to the cultivation of plantation crops."[61]

Even the organisation of production which was disintegrated from factory type to cottage industries has direct links with the export-oriented nature of this sector and the control of trading capital over production.

The Nature and Export-Orientation in the Modern Sector

The modern sector can be clearly distinguished from the traditional sector in terms of its characteristics in general and its export-orientation in particular. As discussed in the previous chapter, the modern sector developed in the state in response to the war demand. There was no indigenous demand for the products of the modern sector (especially the chemical industries). More importantly, it was mostly the non-Keralite entrepreneurs that made investment in the modern sector. In the case of technology, it was the multinationals that provided the relevant technology for the modern sector. Above all, most of the industries of this sector served either Indian markets or foreign markets. All these characteristics continued even during the period under discussion.

Now we may turn to the nature of export-orientation. Unlike the traditional sector, the modern sector exports most of its products to the markets in rest of India. According to a study on external trade of Kerala, commodities worth Rs.1224 crores were exported from Kerala during the year 1975-76 and worth Rs.2615 crores in 1980-81, to both Indian and foreign markets.[62] Studies made on different sectors of the modern industrial sector have further underlined the export-oriented character of this sector, to which we will turn now.

An input-output table of the economy of Kerala for the year 1975-76, has been made available by P.P. Pillai. According to him, "Kerala's secondary sector is highly export-oriented".[63] Exports of commodities from the primary sector constituted 28.01 per cent of the total output of that sector, whereas that from the secondary sector formed as much as 66.89 per cent of the gross output of the sector manifesting the high export-orientation of the secondary sector. There are some sectors of the economy which heavily depend on the rest of the world even to meet their inter-industry demand. For instance, the sectoral demand for transport equipment is more than five times the gross production of this sector, indicating very heavy dependence of the economy on imports of transport equipment.[64] Similarly sectors like 'Other

Foodgrains", cashewnut, mineral products, grain mill products, diesel products, cement and cement products, chemicals and basic metal and metal products are not able to meet the inter-industry demand from the state. Naturally it is met from import.[65] The heavy dependence on import should be seen as a manifestation of the export-orientation.

Making a similar study for the year 1973-74, Umadevi has analysed the forward and backward linkages of the economy. The sectors which show high backward and forward linkages without introducing import leakages are cotton textiles, chemicals, non-metallic products, metal chemicals, construction and electricity. However, when import leakages are introduced, only very few sectors exhibit both backward and forward linkages. The new sector which shows a high backward linkage when import leakages are introduced is the fertiliser industry. Construction, agriculture and animal husbandry continue to figure as high linkage industries, while fishing and fish-processing continue to show a high backward linkage in terms of employment multiplier, but not in other terms. The conclusion of this study is that none of the sectors can be characterised as a key industry in terms of both backward and forward linkages.[66]

Some other studies conducted for individual industries have also come out with similar results. Studies on Chemical Industries and Electrical Machinery Industry show the very low forward and backward linkages generated by these industries.[67] More or less the same conclusion has been drawn in the case of public sector enterprises also. According to a study, most of the firms find it difficult to acquire a market within the state.[68] This necessarily compels them to seek outside markets for their products.

The export-orientation of the modern sector has to be seen in relation to its superficial relationship with the state's economy. The major reason for export-orientation, as elucidated in the previous chapter, was that it was the already established monopoly houses of India that started industries in Kerala and this too with a view to having the necessary raw materials/intermediate goods or product market for their other units situated outside Kerala. The only attraction they found in Kerala was the plentiful water availability and cheap electricity. Moreover, it is quite natural on the part of the immigrant entrepreneurs to seek maximum gain out of the available resources here, in total disregard of the industrial development of the state.

The export-oriented nature of the modern sector has resulted in the stagnation of the industrial sector, as there is no scope for further establishment of industries having linkage with the existing ones. Furthermore, no reinvestment in related industries seems to take place, since the entrepreneurs have units elsewhere in other states, which are more favourably situated even in the case of the availability of electricity.

The Overall Export-Orientation of the Economy

The overall export-orientation of the state's economy during the post-colonial period never showed any tendency to take a deviation from the traversed path; instead it got accentuated during the period under discussion. The overall export-orientation of the economy is reflected in the following spheres:

The proportion of area under export-oriented crops* in the state is much higher than the corresponding proportion for India as a whole. Export-oriented crops occupied about 45 per cent of the total cropped area in Kerala in 1969-70, whereas the corresponding proportion for the country as a whole was only 6.18 per cent in 1968-69.[69] It should also be noted that this proportion for Kerala was only 38.07 per cent

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*Export-oriented crops include tea, coffee, rubber, pepper, coconut, cashewnut etc.

in 1957-58 which increased to 45 per cent in 1969-70 and to 48 per cent in 1984-85, showing a steady increase over the decades.[70] Under the pretext that paddy is unsuitable to Kerala, now more and more area is increasingly put under plantation crops. For instance, the Kuttanad cole lands are being shifted to oil palm cultivation. Another thrust area intended for export is sericulture. Sericulture was introduced into the state in 1986-87. At the end of 1989-90, 2700 acres were brought under sericulture. The target of 5000 acres for the year 1990-91 has been achieved already and the target for the Eighth Plan is 28000 acres.[71]

Kerala is the largest exporter of manpower in India*. Kerala's response to the Gulf boom of the seventies, and the resultant repercussions in the state's economy have been well documented.[72]

Electricity was not an exception to the general tendency of the economy to export. From the sixties itself, Kerala followed an export-led strategy in the sphere of electricity

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*The State Government has even constituted an agency, namely the "Overseas Development and Employment Promotion Consultants"(ODEPC) in 1977 to help the work-seekers to find overseas employment (Economic Review, 1988, p. 16). It must be seen in the context of the fact that the NCAER in 1969 had made a recommendation to the Government of Kerala to encourage emigration of people to other states in the wake of the problem of unemployment(NCAER, "Industrial Programme for the Fourth Plan: Kerala", 1969, p. 2.)

also. At the same time, industrial consumption of electricity in Kerala remained the lowest in the country. The gravity of the problem can be understood when we examine the plan allocation of the state. About one fourth of the total plan expenditure incurred till the end of the Sixth Plan was by electricity.[73]

Another major area which is increasingly promoted purely for export is tourism. "Having identified tourism as one of the high-growth areas with unlimited potential, Kerala has been consistently trying to build up the infrastructure in the past few years".[74] Kerala is the first state to announce tourism as an industry in 1986. An investment subsidy of 10 per cent, exemption of building tax on hotels catering to tourism etc. form part of the concessions given to tourism. With a view to promoting tourism, the Government of Kerala has entered into agreements with the Taj group of hotels, the Oberoi group, the Asian Hotels Ltd., etc. to supply the necessary infrastructure (construction of star hotels).[75] As will be noted in the next section, tourism development was one of the major recommendations of a study group which made an export potential survey of Kerala.[76] It is common knowledge that tourism has resulted in wrong priorities of development, import leakages and very high investment in many third world countries where it had been encouraged.* [77]

C. Region-Specific Factors and the Export-Orientation of the Economy: The Operation of Merchant Capital

Kerala's industrial backwardness and its present economic plight are not the result of any overnight development. We have seen in the previous chapters that no notable nascent industrial efforts were made at any time in the history of development of Kerala. Though there are references to the absence of entrepreneurship in some works on industrial backwardness of Kerala, the historical roots and theoretical foundations of this aspect have not been discussed in any systematic manner so far. In this section modest attempt in this direction is made.

Through the trade in spices and timber, Kerala had been a trading society from time immemorial. A mercantile class was already existing here.[78] Thus during the colonial period, on account of historical factors these usurious and commercial class was existing side by side with the British

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*The experience of countries like Thailand have proved beyond doubt the cultural degradation that is brought with tourism which eventually became known as 'Sex Tourism'. Available trends indicate that Kerala is also proceeding along this track and within a short span of time it may also become an infamous destination for sex tours from West.

capitalists who had their monopoly over the plantation and export-sector.[79] This mercantile class acted through their control over handicrafts and artisan production as well as through engaging in usurious activities. Most of these money-lending and trading activities were in the hands of Syrian Christian and Muslim traders.[80] Even before the withdrawal of British capital from the plantation sector, Travancore had a number of Christian merchants specialising in speculative and money-lending business. These trading sections were supposed to have been outside the caste hierarchy;* at the same time their basic economic philosophy was shaped by mercantile activities subserving colonial capital.

From very early times, Central Travancore had been a centre of trade, commerce and banking. Banking was closely associated with the Christian community "whose churches had nearly half a century of experience in manning kuries. It was probably this experience that stood the Christians in good stead in running kuries and banks independently in subsequent years".[81] An usurious - trading class also developed

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*It has been argued by several writers that the Christian-Muslim Communities were filling the gap provided by the absence of an industrial-trading caste (the Vaisya Caste) in the Kerala caste structure. These communities confined to the internal trade while overseas commerce had been consistently dominated by non-Malayalis - one of the striking feature of Kerala. See Stephen Frederic Dale, op.cit.,p.23.

around Trichur, which was known as the land of chitties and kuries. In the case of Travancore, there was a mushroom growth of joint-stock companies mostly in the banking sector during the early twenties. In 1932-33, the State of Travancore accounted for over 20 per cent of the banks in India.[82] The growth of Travancore and Quilon National Bank is quite noteworthy in this context. Before the amalgamation of the Travancore National Bank and the Quilon Bank, the Quilon Bank alone had grown from a meagre deposit of Rs.54,000 in 1919 to 1.0257 crores in 1936. Similarly the Travancore National Bank had a deposit of 1.7765 crores in 1936.[83] It wad calculated that in 1932 itself, per capita bank branches in Travancore was much higher than that in France. In Travancore there was a bank branch for every 20,000 people.[84] However, this apparent symptoms of capitalist development had a basic flaw. The growth of entrepreneurship was largely commercial-oriented rather than production-oriented. According to the Administration Report of Travancore for 1943-44, out of the 436 registered joint-stock companies with a total paid-up capital of Rs.520 lakh, 56.5 per cent (accounting for 70.1 per cent of the total paid-up capital) belonged to the trading sector.[85]

Thus accumulation of considerable money in the hands of natives went mainly to plantation and other trading activities. Native capital was shy as far as industrial efforts were concerned. The problem was not lack of funds. As was pointed out in the Report of Industrial Survey of Travancore, "The state is not lacking in money but there is great shyness and unwillingness to invest"; and this unwillingness was attributable to "the comparative safety of landed property, the failure of various industrial enterprises, the profit obtainable from money lending . . . .".[86] According to P.C. Peter, it was not paucity of money but the absence of entrepreneurship that acted as the major factor in hindering the industrialisation of Travancore. The observation goes like this: "The paucity of industrial capital cannot be ascribed to the inadequacy of funds. Such fear is clearly laid at rest when we know that whenever the government floated any internal loans they were oversubscribed in a few hours time, ... ".[87] In the words of another researcher, "It is, however, well-known that capital in Travancore is unnecessarily shy and as a result most of the industries that can be financed and run by Travancoreans are in the hands of foreigners".[88]

The absence of any indigenous entrepreneurship rather than the paucity of capital seems to be a crucial determinant of the evolution and perpetuation of Kerala's industrial retardation vis-a-vis other states. In this context, the experience of the Paise Fund in setting up indigenous industrial enterprises after acquiring inspiration from the national freedom movement is worth noting. This Paisa Fund Glass Works from whom the proprietors of one of the biggest commercial glass works in India (the Ogale group) in the 1930s got training in setting up their industrial enterprises, raised the required capital by collecting sums even as small as fifty paise from the people.[89] Obviously such efforts were absent among the nascent business class.

Consequent on the retreat of foreign capital from the plantation sector and the traditional industries, these spheres were acquired by the local merchants. In fact, as these areas progressively came under the control of local capitalists, the result was their gradual transformation into what is called 'petty commodity production'. Consider for instance, the case of cashew and coir. Those who entered these industries with merchant capital first developed into exporting-cum-manufacturing houses and then got transformed simply as exporters. In fact, the easy money that came through exports helped perpetuate the structural backwardness of these industries. In the case of cashew, as long as cheap labour was easily available, no systematic pressure was there to change the backward production structure and the same production process continued.

State policy was also always aimed at maximising and maintaining foreign exchange inflow and local exporters/traders derived additional profits from export earnings. This in no way contributed to any improvement in the industrial structure.

By the close of the forties, big coir factories employing more than 500 workers came up in Alleppey and by the fifties coir became the most important industry in Kerala. However, this premier manufacturing industry is now in doldrums as we have seen in the previous section. In the process of decentralisation of production initiated by local capitalists, small scale units (mostly the cottage industries type) replaced the big factories. The small producers have absolutely no control over exports and trade and the subcontracting arrangement greatly suited to the big exporters. It may not be an exaggeration to say that the monopoly of export trade by a few big traders having links with export markets is the cause for the stagnation of coir industry. The observation made by the High Level Committee is relevant here: "Many of the drawbacks in the export front of coir and coir products are attributed to the unethical practices of merchant exporters".[90] Other export-oriented traditional industries of Kerala also show similar trends. We have already noted that in the case of cashew industry how too much reliance on foreign markets have shattered this industry and how the trading interests have blocked the possibility of the progressive development of productive forces. In the fishing industry also the experience was not different. The mechanised sector had come into existence due to the lure of big money by the export of prawns. It is this dependency on exports that has led to the irrational development of Kerala's fisheries sector and its consequent decline.

Fragmentation of industrial units and growth of petty commodity production have been a ubiquitous phenomenon in the industrial scene of Kerala and this phenomenon has been on the increase in recent years. For example, Kerala topped in the country with regard to small factories and non-household enterprises both in 1961 and 1981 constituting 38.5 per cent and 56.9 per cent of the total employment respectively.[91] According to another study, the small-scale sector employed 2.78 lakh persons, thrice as many as employed by large and medium industries.[92] Even here the commercial rather than the production orientation of capital is visible as manifested by the poor quality of entrepreneurship.

This commercial-orientation of the economy of Kerala is reflected in the immense quantity of money capital circulating here. Some estimates have shown that during the last decade itself about 7000 to 8000 crores of rupees have flown into Kerala from abroad (mainly from the Gulf countries).[93] Of this inflow, only one-fifth has been deposited in banks or other channels relating to productive activities. The bulk of the remittances is supposed to be spent on luxury consumption, purchase of land, real estate, trading and usury. With more than 3000 commercial bank branches and about 300 cooperative banks, Kerala has perhaps the best banking network in the country.[94] Bank deposits account for a substantial, proportion of the financial assets of households in Kerala. Over a period of 13 years from 1975 to 1988 the aggregate commercial bank deposits in Kerala increased by 1024 per cent as against 825 per cent for all India.[95] The total commercial bank deposits in Kerala increased from Rs.442.28 crores in 1975 to Rs.4971.05 crores in 1988. During the period 1969-89, bank deposits in Kerala rose from Rs.117 crores to Rs.23,607 crores.[96] The per capita bank deposits in the state is also higher than that of the country as a whole.[97] Further, Kerala accounted for the highest agricultural savings rate 15 per cent.[98] Kerala's rural per capita gross investment in formal financial assets were the second highest among Indian states in 1971-72, (Second only to Punjab, the most prosperous state in India).

However, in per capita net rural financial assets, Kerala's position was the highest, higher than that of even Punjab.[99] Moreover, the total deposits of the private financial firms (called the 'blade companies') is estimated to be about a quarter more of the savings of all the scheduled bank branches in Kerala.[100] These funds are used for usurious and speculative purposes. Now that the activities of most of the 'blade companies' have been curtailed, this money has found its way to the Cochin Stock Exchange where the current estimated turnover is about Rs.35 crores.* The massive flow of these funds to unproductive activities has resulted in a disproportionate growth of the service sector in the economy. This enormous

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*It may be noted in this context that in 1990, there was a heated discussion on the role of Cochin Stock Exchange in Kerala's industrialisation efforts. A section that participated in the debate upheld stock exchange as a boon to the economy of Kerala. Of course, such a view was there even much before the advent of stock exchange itself. For, according to a writer, it was the lack of a stock exchange that acted as an obstacle in raising money for the indigenous entrepreneurs in Travancore for its industrialisation. (Raman Mahadevan, "Some Aspects of Pattern of Industrial Investment and Entrepreneurship in Travancore during the 1930s and 1940s" C.D.S., Mimeo, p. 10). The opposite view however held Cochin Stock Exchange as the villain behind Kerala's industrial backwardness since it drained much of Kerala 'capital' out. (See Stock Exchange Debate in Mathrubhumi, February, 1990). However, both these apparently opposing views lacked a historical approach to the problem of Kerala's industrial backwardness. The presence or absence of a stock exchange becomes relevant only in the context of an industrial class ready to take risk, which has been conspicuous by its absence in Kerala.

growth of the service sector was without a corresponding growth in the production sectors. Though, disproportionate growth of the tertiary sector is a characteristic feature of third world countries, Kerala's case is more acute. Per capita consumption in the state exceeds per capita income. Kerala offers a large consumer market in India, at the same-time maintaining a very low production base. Economic activities belonging to the sphere of circulation such as trade, money-lending, hoteleering etc. have increased the money income of a section of the people - not only rich but the middle income group as well. It is this section that sustains the demand for modern consumer goods produced elsewhere.

At the same time, certain type of economic activities were flourishing in the state, which bore no relationship to productive activities. For example, the film industry whose investment in the 1950s was very low, grew into a multicrore turnover business in the 70s and 80s. Liquor, lottery, publishing etc. also made rapid advancement in recent years.[101] Tax proceeds from liquor form one of the major sources of governmental revenue. Appraising the performance of Kerala's Sixth Five Year Plan, Institute for Financial Management and Research commented, "the money (Gulf remittances) has found its way into housing and more risky investments such as producing films, electioneering, blade companies etc. rather than industrial ventures".[102] Another thriving "industry" in Kerala is the rapidly growing parallel colleges and privately owned technical institutes that have come up in large numbers. As a result of the dominance of trade and related activities, the share of value-added has grown more than proportionate compared to the other two productive sectors.

The above sketch brings to the fore certain very fundamental issues regarding the socio-economic character of the Kerala economy and its industrial structure. Trading or merchant capital which is the dominating form of capital in Kerala has been the major stumbling block on the path towards the evolution of a vast network of manufacturing and factory system of production. With its tap roots in the sphere of circulation this merchant capital continued to expand the spheres of consumption and exchange. Under its control, the entire productive sector, especially the traditional industries was transformed* to a state of 'petty commodity production' and this state of affairs continued unabatedly. This process is quite contrary to the historical process of industrialisation that took place in various countries of

*Under the control of colonial capital most of the traditional industries were organised under the factory system of production, not strictly adhering to the capitalist mode of production. (Discussed in a more detailed manner in the earlier chapters).

the world in which the merchant capital became subordinated to industrial capital. This trend that led to the development of capitalism in the developed countries is conspicuously absent in Kerala even today. In industrialised societies merchant/usurious capital is an agent of and is subordinated to industrial capital, while in Kerala the former is the dominant form of capital. Under the merchant capital, Kerala is still having a trading system and not an industrial system proper. The various institutions of the service sector including the banks mainly serve this trading system.

This is not to deny the importance of trade and commerce in the development process in a modern economy. However, unless industry takes the lead in initiating rapid changes in the economy, the so-called development will be superficial since it lacks a production base in the economy. In Kerala "the nexus of industry with commercial capital has been so close that the former form of capital (i.e. industrial activities) are operating as an island in a vast ocean".[103] In such a situation whatever surplus generated in the economy is "being appropriated by a powerful and emerging trading community both within and outside state".[104] Thus even the meagre surplus generated by the weak industrial sector "is transformed into commercial capital, which by and large, assures quick returns" through a process of "progressive leakage from the income stream".[105] In other words, the unproductive service sector saps even the limited possibilities of capital investment in the productive sector. The traders and speculators mop up the investible surplus and channelise it into unproductive fields through mushrooming credit institutions and consumer market. In this manner the powerful merchant capital that serves the trading interests within Kerala also subserves the interests of foreign markets also. Of course, the export-orientation path that has led Kerala's hitherto industrialisation efforts have been in conformity with the operation of this trading class here.

It is relevant, in this context to refer to certain Marxist observations on the role of merchant capital in the process of development/industrialisation. Of course, merchant capital is the oldest form of capital, the form in which it first appeared in the world. In the pre-capitalist era, it flourished independently in different parts of the world whose general features were more or less the same.[106] In non-capitalist societies the merchant capital - the only form of capital - which is penned up in the sphere of circulation controls productive activities (whose mode is petty commodity production) and appropriates surplus product without directly confronting labour through a process of exchange. This surplus that is drained out of the sphere of production is locked up in the sphere of circulation and is used to expand trade and not the forces of production. A glance at the economic structure of Kerala reveals that the same set of forces are operating here. As Marx noted: "The independent development of merchant capital stands in inverse proportion to the general economic development of society".[107] Thus merchants (whether in Kerala or elsewhere) do not make their profits by revolutionising production but by controlling markets. According to Marx, the Industrial Revolution (of England) was a historic defeat for merchant capital. The first struggle of industrial capitalism that evolved through a process of reorganisation of production was against its progonitor, i.e., merchant capital; and converted the latter as an agent of the former. Examining the development of capitalism Marx observed, ". . . . . it is not commerce in this case which constantly revolutionises industry, but industry which constantly revolutionises commerce".[108] Comparing the case of Holland which was a mighty mercantile power much earlier than other European countries, with England Marx opined: "The history of the decline of Holland as the ruling trading nation is the history of subordination of merchants' capital to industrial capital".[109]

The observations of Marx are all the more relevant in the discussion of Kerala's industrial backwardness. In Kerala, on the one hand, the merchant capital tends to repress economic/industrial development, on the other, the entire economic structure of Kerala is shaped in accordance with the requirements of external economic interests. The export-orientation of the industrial structure and the economic system as a whole is in consonance with this situation. In the process, the merchant class squeezes out the entire surplus from the small production units both in the cash crop agriculture and in industry and prevents them from reinvesting their surplus in the sphere of production and thwarting their efforts to grow into bigger ones. When hundreds of crores of rupees are devoted to the sphere of circulation for trade and speculative activities, the paradox is that small-scale entrepreneurs in Kerala are suffering from acute capital deficiency. At the same time large-scale enterprises in Kerala belong to big monopolists from outside. Commenting on the nature of the Kerala economy during the fifties, George Lieten observed: "The cottage industries preserved here are extremely backward and the trade and usurious capital wield considerable influence in them. Their development into higher forms of industry is very slow. Big factories, however, have been built in these areas, usually by entrepreneurs from the more developed areas or by foreign capitalists".[110] He continues: "The same story of low capital investment could be repeated for tiles, rubber, copra mills, matches, splints and veneers and others. The question thus arises whether capital was really being diverted from usury and petty trade towards production, or was capital still being used in unproductive pre-capitalist business and in production with rather low capital investment.[111] These questions posed with reference to Kerala economy in the 1950s are still valid today.

From the above discussion, it may be concluded that the industrial structure of Kerala is endowed with certain unique characteristics compared with that of other states. The basic issue is the near total absence of an industrial class in Kerala. It is the shy nature of the moneyed sections here and the consequent "corrosive influence of commerce" that hamper the transformation of trading capital into industrial capital. At present, the basic economic laws operating in the economy are structured to the needs of internal and international trade.

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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".[1] They also opined that "the electricity exported would provide a revenue which in turn could be used for capital formation within the state".[2] 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".[3] 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.[4] 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.[5] 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).[6] 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".[7]

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.[8]

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".[11]

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.[12]

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.[13] 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.[14]

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.[15]

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.[16]

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".[17]

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.[18]

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".[21] 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.[22]

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".[23] 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 market.[24] 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.[25]

The next industrial policy was announced in 1967 under the rule of the Marxist-led United Front Government. The Government in its industrial plicy 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.[26] 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 atmost emphasis to electronics industry.[27]

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".*[28] 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

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*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.[29] 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.[30] 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".[31] 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.[32]

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: [33]

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 import 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 promot 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
3. Central Tuber Crops Research Institute.
4. Central Plantation Crops Research Institute
5. Kerala Farm Information Bureau.
6. Kerala Inland Fisheries Development Corporation.
7. Kerala Forest Research Institute.
8. Kerala State Cooperative Bank
9. The Kerala State Handloom Weavers' Society.
10. Kerala Cooperative Coir Marketing Federation
11. Kerala State Rubber Marketing Federation.
12. Kerala State Cooperative Marketing Federation.
13. Central Arecanut Marketing and Processing Corporation.
14. Kerala State Handicraft Apex Society.
15. Kerala State Industrial Development Corporation.
16. Kerala Financial Corporation.
17. Kerala State Electronics Development Corporation.
18. Kerala State Textile Corporation.
19. Kerala State Industrial Products Trading Corporation.

20. Kerala State Industrial Enterprises Ltd.

    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.

21. Kerala Minerals & Metals Trading Corporation

22. Kerala Agro Machinery Corporation.

23. Kerala Industrial and Technical Consultancy Organisation.

24. Oushadhi

25. Transformers and Electricals Kerala Ltd.

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Chapter VI

CONCLUSION

The central concern of the study has been to offer an explanation to the industrial backwardness of Kerala. There is considerable literature which explains this phenomenon in terms of a number of factors. But no serious effort was made so far to identify the relationship between the export-oriented development path followed by the state and its industrial backwardness. While most studies have analysed the internal dynamics of the problem, the present study seeks to take into account both the internal and external dynamics and also,treat the problem in a historical perspective. It is also sought to locate the problem in the context of the third world industrialisation experience.

Historically speaking, the colonial policies were the external conditions within which the actual process of the so-called industrialisation evolved. The major industries like coir, plantations, cashew and tiles which came to be established under European initiative were exclusively export-oriented. In other words, it was as part of the export-orientation of the whole economy that the initial spurt in industrialisation took place in Travancore. All economic activities of the region including agriculture, transportation, banking, education etc. catered to export trade only. The export-orientation of the economy of Travancore was quite in line with the experience of other colonies which were made the suppliers of necessary raw materials to the imperial countries. This international division of labour was forced upon the colonies invoking the principle of comparative advantage.

Even the evolution of the modern sector in Travancore during the forties was the result of a policy change towards factory industries, on the part of the imperial government, in the wake of the world war. As all other princely states, Travancore also took part in the industrialisation effort providing government participation in investment, subsidies, electricity at cheap rate etc. The pertinent feature of this sector was its export-orientation on account of its evolution in response to the war demands and also of the lack of an internal market.

The export-orientation of the economy attained new dimensions during the post-colonial period encouraged by the national and regional policies. The effects of export promotional measures of the Central Government during the earlier years and a gradual shift towards export-oriented industrialisation strategy were very well reflected in the economy of

Kerala. During the early years of independence it was the traditional export-oriented industries like coir, cashew, tea, fish etc. that were given all kinds of encouragement with a view to increasing exports, whereas from the seventies onwards modern export-oriented industries like electronics based on a new international division of labour, were encouraged. Even the various studies by NCAER, TDA, IIFT etc. recommended an export-oriented development path for the state. Export-orientation could be observed in almost all spheres of the economy such as industry, agriculture, manpower, electricity and even culture. If some catered to foreign markets, others relied on Indian markets.

The total orientation of the economy towards the export sector eventually resulted in distorting the economy with enclave-type of sectors. Instead of maintaining complementarity and reciprocity among the different sectors of the economy, each sector was integrated to the external market. The lack of linkage between industry and agriculture had the most devastating effect on industrialisation. One of the essential conditions for self-sustaining industrialisation viz., the inter-linkage between agriculture and industry was conspicuously absent because of their external orientation.

The export-orientation of the whole economy had the effect of diverting all the resources towards the export sector. A striking example is with regard to the generation of electric power. Though the priority accorded to the power sector under the state Five Year Plans is fully justified, in sharp contrast to other states, generation of electricity itself was developed as an export item in addition to sub-serving the various export-oriented industries and units here. Even the vast amount spent on food imports has to be viewed as the direct result of the overimportance given to the export products of plantations.

On account of the export-orientation of the industrial sector, even the meagre industrialisation that had taken place in the state could not in any way create an industrial base having inter-industry linkages.

In any major explanation of the causal factor of industrial backwardness of the state, the role of the entrepreneurial class is very significant. Of course, Kerala lacks an indigenous industrial class in the classical sense of the term. And the nascent moneyed section is still immersed itself in speculative and mercantile activities. Even the traditional export-oriented industries with which they are associated, are not fully developed capitalist enterprises.

They are basically primary-processing units catering to the export needs. Thus the money available in the economy is held up in the sphere of circulation in the absence of an industrial class who could channel it into productive activities. In short, one of the major impediments to the evolution of autonomous industrialisation, is the absence of an indigenous industrial class capable of being the driving force for sustained industrialisation.

From the analysis in the previous chapters it is clear that export-orientation of the economy, especially the export-orientation of the industrial sector that evolved during the colonial period has been perpetuated even during the post-colonial period as part of a conscious effort on the part of the Central and State Governments. This export-orientation of the economy is surely an important cause of the industrial backwardness of the state. Together with this is the absence of a nascent capitalist class. A self-sustaining and independent industrialisation has to be evolved essentially under indigenous entrepreneurial efforts, indigenous technology and capital catering primarily to the needs of the internal market. As the role of the entrepreneurial class in co-ordinating the other indigenous factors for industrialisation is very significant, any serious enquiry into Kerala's (or any region's, for that matter) industrial backwardness should necessarily focus on the evoluation and development of this class and the associated paradigm of class relations.

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