



Industrial parks and the MSME development in Kerala: An economic analysis

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Abstract

The development of industrial parks as a constructive channel of industrial infrastructure has attracted the attention of policymakers in recent years as they can develop certain synergies and a typical entrepreneurial culture in the industrial economy of the country. By providing a strong legal and institutional framework, industrial parks pool resources and reduce costs, risks, and the delays associated with land acquisition, zoning and permitting. Kerala, with its availability of competitive natural and skilled human resources, world-class industrial infrastructure, and excellent connectivity and communication networks, is best suited for the growth of the micro, small, and medium enterprises. The Government encourages MSMEs as an engine of growth as it contributes much to the process of economic growth, employment generation, and balanced and equitable regional development. It is in the context, the paper attempts to explore how industrial parks align infrastructure provision and agglomeration economies to jolt industrial growth of the regional economy with particular reference to the MSME development in Kerala.

Keywords: Kerala industry, industrial development, industrial parks, industrial infrastructure, MSMEs, special economic zones, KINFRA

1. Introduction

The industrial and commercial policy of the State attempts to convert Kerala into an entrepreneurial society and aims at the rapid industrialisation of the economy with big leap in commercial activities so as to achieve high and sustainable economic growth, with specific thrust to social objectives and without affecting its ecology and environment. It attempts to energise the industrial sector of Kerala through reviving the traditional industries, restructuring public sector undertakings, and providing an impetus to the Micro, Small, and Medium Enterprises (MSME) sector through sufficing investments, technology upgradation, diversification, and modernisation. The MSME sector in Kerala has the potential to emerge as a strong, vibrant, and globally competitive sector in the State's economy. The sector is diverse in terms of its size, levels of technology employed, and range of products and services produced. They play a pivotal role in issues such as sustainability, inclusiveness, innovation, value addition, and access to global markets. The State has identified about 75 SME Clusters which are at different stages of their development.

Within the context of an overall development strategy of the State, industrial parks can be valuable instruments to increase the regional and national industrial competitiveness. They offer the benefits of high quality infrastructure in build-to-suit sites, strategically located in key industrial areas. Industrial parks generally provide an excellent institutional framework, support services and physical infrastructure in a more specified and customised manner. They are the policy drivers to foster sufficing investments, employment, competitiveness, sustainable business strategies, and regional economic development. They can provide fertile grounds for leveraging

new technologies, learning and innovations, jobs and markets, and ultimately value added links between academic research and industry. The theory of industrial parks holds that Governments must provide public goods, particularly infrastructure, for the industrial firms to be competitive. The co-located firms generate agglomeration economies and so the public goods should be concentrated on areas of co-location. The provision of infrastructure will somehow induce the firms, and exemptions can be made that will further entice them and create better competitiveness.

2. Industrial Parks and Regional Industrial Development – An Exploration

The United Nations Industrial Development Organisation (UNIDO) defines Industrial Park as “a tract of land developed and subdivided into plots according to a comprehensive plan with or without built-up facilities, sometimes with common facilities for the use of a group of industries.” It is a relatively large enclosed area of land in which there is a cluster of industrial units, either of homogenous or heterogenous character, so that its entrepreneurs can enjoy the specialised benefits of industry-specific infrastructure, special incentives and other concessions earmarked by the Government. Industrial parks are designed specifically in an easy, well-in-start manner with the confidence of decent return on investments. Buyers, producers, and suppliers can operate in the same location, thus cutting the transaction costs of economic learning while establishing new standards and customised norms of entrepreneurial behaviour. As a promising strategy to sustainable industrial development of the regional economy, industrial parks integrate business success, environmental excellence, and community

connections to create opportunities and improved ecosystems. The rationale for industrial parks has traditionally been twofold: *firstly*, the provision of functional infrastructure is much easier to plan in a geographically limited space, particularly for the delivery constrained Governments ^[1] and *secondly*, the concentration of firms can provide significant spillover effects both inside and outside the park – information spillovers, including knowledge and technology; the specialisation and division of labour among enterprises; the development of skilled labour markets; and the development of markets around the parks ^[2]. Industrial parks are increasingly recognised as effective means of industrial development and promotion of small and medium enterprises as they play an important role in their inclusiveness, technology absorption, efficiency improvement, and availability of common resources. The companies located in these types of industrial clusters can operate with higher efficiency and can collaborate with research institutes, technology labs, productivity centres, venture capitalists, and other providers of business development services. This increased efficiency and survival rate through strong forward and backward linkages in the value chains which has a positive impact on the ability of the companies and enable them to acquire new competences and access to international markets.

Industrial parks can have a positive influence on the revitalisation of business environment, transfer of modern technologies, and the restructuring and modernisation of industry in any economy. Kerala has adopted the ‘cluster development approach’ for industrialisation to reap the benefits of agglomerations through transformation of the traditional systems of activities to new networks ready for competition and innovation. It promotes cluster formation as they enable the enterprise to enjoy the benefits of economies of scale in production and distribution. Industrial parks strengthen the industrial base of small and medium-size towns, increase the efficiency of urban land use, and reduce rural-urban migration. Firms located in industrial parks often use the services of local companies, creating not only backward and forward linkages, but also diffusing economic learning to the wider business community. Further, industrial parks represent an opportunity for an influx of foreign investment and decrease of unemployment by means of creation of new jobs and other benefits of regional industrial development of the economy.

Industrial parks are beneficial in the fact that they apply modern technologies and innovations, bring economic and innovative potential or internationally well-proven know-how, and thus support the process of reconstruction and modernisation of the industry. They create conditions for the development of small and medium size companies and their cooperation with other world-class entities, and therefore, have a positive effect on cooperativeness ability, labour productivity, increase of employment, and the research capabilities of a particular industrial region. The job opportunities created or transfer of technologies among

companies will bring about certain synergic effects on the regional industrial economy, and will ultimately have a progressive impact on the overall economic development of the country. In a globalised economy in which global value chains link companies across borders, industrial parks and the cluster-based industrial development has become an important element of regional innovation systems in the industrial economy of Kerala, along with the MSME networks, intermediary and research institutions, and Government.

3. Industrial Parks in Kerala – The Role and Economic Imperative of KINFRA

In Kerala, the functional roles of industrial parks as developers, constructors, and operators is mainly performed by the Kerala Industrial Infrastructure Development Corporation (KINFRA) on behalf of the Government. Being the industrial catalyst of the State, the Kerala Industrial Infrastructure Development Corporation, popularly known as KINFRA has been following an untiring effort of industrial development by promoting the concept of ‘Industrial Parks’ in Kerala. It brings together native resources and develops industrial infrastructure across the State by identifying and promoting core competency areas of each region, creating walk-in and manufacture environments, and wooing potential investors from across the world. KINFRA has identified certain core competency areas and is having 20 well-defined industrial parks at present. These parks offer comprehensive infrastructure, support services, attractive incentives and concessions, single window clearance, and immense opportunities for the expansion and diversification of business. The development of industrial parks promotes the exclusive growth and development of the core industrial sectors identified by the Industrial Policy of the Government.

KINFRA has made remarkable achievements since its inception and has catered to the industry-specific infrastructure requirements of the State during twentyfive years of its untiring efforts. India’s First International Apparel Park established at Menamkulam in Thiruvananthapuram, India’s First Export Promotion Industrial Park established at Kakkannad in Ernakulam, India’s First Infotainment Park established at Kazhakuttom in Thiruvananthapuram, India’s First Food Processing Industrial Park established at Kakkancherry in Malappuram, India’s First Herbal Park at Vythiri in Wayanad, India’s First Rubber Park (Joint Venture Company with the Rubber Board, Government of India) established at Irapuram in Ernakulam, and India’s First Marine Park (Joint Venture Company with the Marine Products Export Development Authority–MPEDA, Government of India) established at Aroor in Alappuzha, a high-tech Bi-Technology and Electronics Park at Kalamassery in Ernakulam are some of the notable achievements of KINFRA over the years.

Having been recognised the enormous development potential to revamp the State; the Government has accorded special emphasis to the Food Processing, Electronics, and Information Technology sectors as its sunrise sectors. KINFRA has set up exclusive parks for these sectors which has obtained the ‘Product Specific Special Economic Zone’ status from the Central Government. Using the ambience and world-class infrastructure facilities of KINFRA, these Product Specific

¹ Marshall, Alfred (1920). *Principles of Economics*. London: Macmillan.

² Sonobe, Tetushi and Otsuka, K. (2006). *Cluster-Based Industrial Development: An East Asian Model*. New York: Palgrave Macmillan.

Special Economic Zones aim to create an environment for the development of high-tech, non-polluting export-oriented industries in Kerala and thereby creating a top-notch industrial township, which could attract global players to the industrial arena of the State. With the potential to generate comparative and competitive advantages, these industrial parks attract better investments, support start-ups and new enterprise incubations, fostering technological learning, and facilitate innovative businesses.

With the objective of promoting, stimulating, and facilitating the development of a strong industrial base for the State, KINFRA acts as an agency in catalysing the development of physical and social infrastructure for the constant growth of its industry. The industrial parks set up by KINFRA offer various incentives and opportunities for the rapid expansion and diversification of the industrial units. Easier access, connectivity, power and water availability, sewage and environmental protection, secure and peaceful environment, single window clearance mechanism, local people support, and efficient management of the parks, all helped to build and sustain confidence among the investors. The future focus of KINFRA will be to consolidate the gains made in the past twentyfive years and to build a more responsive and dynamic system to attract larger investments in the industrial sector of Kerala and thereby creating an environment for the existing industries to consolidate and new industries to come up on a more viable and sustainable basis.

4. The MSME Sector in Kerala's Industrial Economy – Potential & Prospects

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the industrial economy of Kerala. They are widely dispersed across the regional economy, producing diverse range of products and services to meet the demands of local as well as global markets and thus, have been contributing to the expansion of business innovations. The MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. In Kerala, the State Government is providing special support to the MSMEs due to its enormous potential of development in its industrial economy. The sector contributes greatly towards domestic needs, export, and foreign exchange earnings by producing variety of products ranging from traditional agricultural products to high-tech microprocessors.

The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. The Kerala Perspective Plan 2030, a vision document of the State Planning Board, Government of Kerala acknowledges the economic imperative of the micro, small, and medium enterprises in the regional economy. It observes the MSME sector in Kerala is emerging

into a knowledge-driven competitive economy with a high spirit of innovation, entrepreneurship, social inclusion, and diversity in its march towards a more sustainable, strong, and vibrant industrial economy^[3]. The importance and contribution of the MSME sector to the economic growth and prosperity of the State is well established in terms of their role in employment generation, fostering of competitiveness, and upholding of the entrepreneurial spirit and innovation in the economy. They encourage self-sufficiency, self-reliance, and coordinated industrial development and are vital for ensuring equitable, inclusive, and employment-friendly economic growth. The details regarding the composition of total working SSI/MSME units registered in Kerala upto 31st March, 2015 are given in Table-1.

Table 1: Details of Total Working SSI/MSME Units Registered in Kerala (As on 31st March, 2015).

	District	Number of Units Promoted by				
		SCs	STs	General	Total	Women
1	Thiruvananthapuram	1276	235	31961	33472	8300
2	Kollam	1145	109	16283	17537	6345
3	Pathanamthitta	768	48	9868	10684	4070
4	Alappuzha	558	89	17809	18256	5667
5	Kottayam	491	187	23788	24466	6697
6	Idukki	416	171	4839	5426	2241
7	Eranakulam	560	195	32344	33099	7277
8	Thrissur	1376	123	30585	32084	6693
9	Palakkad	1386	146	15694	17026	3811
10	Malappuram	516	95	13358	13969	2191
11	Kozhikode	612	86	18579	19307	3331
12	Wayanad	104	164	3663	3931	1477
13	Kannur	214	87	12793	13094	2764
14	Kasargod	185	102	7058	7345	1642
	Total	9607	1837	238622	249696	62506

Source: Directorate of Industries and Commerce, Government of Kerala.

The small scale industries play a momentous role in the overall economic advancement of any economy on account of their inherent advantages like low capital requirement, high employment generation, decentralisation of industrial activity, utilisation of locally available resources, and widening of the entrepreneurial base. They are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements the efforts of the State Governments through various initiatives. The role of the Ministry of MSMEs and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. The year-wise details of SSI/MSME units registered in Kerala during 2010-2015 are shown in Table-2.

³ Government of Kerala (2015). *Kerala Perspective Plan 2030*. Thiruvananthapuram: The Kerala State Planning Board.

Table 2: Details of SSI/MSME Units Registered in Kerala (2010-2015).

Year	Total Units (Nos.)	Total Investments	Value of Output	Employment (Nos.)
		(Rs. Lakh) #		
2010-2011	11089	240194	8353151	83468
2011-2012	11071	180437	697838	79015
2012-2013	13551	197913	700713	86431
2013-2014	14997	222413	1425142	87789
2014-2015	15455	238795	711976	83500

Source: Directorate of Industries and Commerce, Government of Kerala. # Rounded off to nearest highest digit to eliminate decimals.

The MSMEs constitute the backbone of the industrial economy of any country in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as engine of economic growth and social development in many developed and developing countries. Contribution of MSMEs to the economy in terms of employment generation, containing regional disparities, fostering equitable economic growth and enhancing export potential of the country has been quite phenomenal. It has registered remarkable success with regard to increase in

number, quantum of investment, scale of production and overall contribution to the national GDP. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The district-wise details regarding total investment, value of output produced, and total employment generated in the MSME sector of Kerala as on 31st March, 2015 are given in Table-3.

Table 3: Details of Investment, Value of Output and Employment in the SSI/MSME Units Registered in Kerala (As on 31st March, 2015).

Districts	Units (Nos.)	Total Investment	Total Output	Total Employment (Nos.)	
		(Rs. Lakh) #			
1	Thiruvananthapuram	33472	183555	356550	164791
2	Kollam	17537	120088	1004222	118391
3	Pathanamthitta	10684	68210	158027	59246
4	Alappuzha	18256	111625	238686	103070
5	Kottayam	24466	125731	287166	85448
6	Idukki	5426	49541	1290517	30691
7	Eranakulam	33099	350195	1194342	226815
8	Thrissur	32084	172366	504316	131988
9	Palakkad	17026	135862	425272	77856
10	Malappuram	13969	92716	210836	62762
11	Kozhikode	19307	125268	409356	93397
12	Wayanad	3931	24966	74712	19870
13	Kannur	13094	77482	220298	61502
14	Kasargod	7345	36253	69997	38558
Total		249696	1673858	6444297	1274385

Source: Directorate of Industries and Commerce, Government of Kerala. # Rounded off to nearest highest digit to eliminate decimals.

The MSMEs over the years have assumed greater significance in our burgeoning national as well as regional economy by contributing to employment generation and rural industrialisation. This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. As a catalyst for the socio-economic transformation of the country, the MSME sector is extremely crucial in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions. The major schemes or programmes undertaken by the Ministry of MSMEs and its organisations throughout the country seek to facilitate or provide: (i) adequate flow of credit from financial institutions or banks, (ii) support for technology upgradation and modernisation, (iii) integrated infrastructure facilities, (iv) modern testing facilities and quality certification, (v) access to

modern management practices, (vi) entrepreneurship development and skill upgradation through appropriate training facilities, (vii) support for product development, design intervention and packaging, (viii) welfare of artisans and workers, (ix) assistance for better access to domestic and export markets, and (x) cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.

5. Conclusion

Successful industrial parks can become the growth and innovation hubs in the economy directing interactive learning and national economic development. The Government encourages employment-oriented, environment-friendly, and non-polluting industries that have the potential to compete with global players where, leveraging industrial parks as a policy instrument fosters competitiveness of the

agglomeration economies and promote local supply chain development. When successfully managed, industrial parks can provide an environment for enterprise and innovation to flourish and significantly influence the regional industrial economy of the State. Thus, having been recognised the enormous potential and significance of the MSME sector in the regional industrial economy, the Government aims at the establishment of innovative institutional practices like industrial parks, industrial estates, industrial townships, industrial corridors, industrial development zones, industrial growth centres, and special economic and technology innovation zones for its development and to revamp Kerala into a leading business cynosure.

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