

Cluster-based industrial development: The case of industrial estates and special economic zones in Kerala

¹ P Noufal, ² Dr. KV Ramachandran

¹ Assistant Professor, Department of Economics, Sree Neelakanta Government Sanskrit College, Pattambi, Kerala, India.

² Associate Professor, Department of Economics, University of Calicut, Dr. John Matthai Centre, Trissur, Kerala, India.

Abstract

Having been recognised the importance of industrial development; the Government has evolved various strategies to initiate an element of dynamism in the growth process so as to make the State a leading industrial destination in India. Development of avant-garde infrastructure is an essential pre-requisite for rapid industrialisation and the Government is trying to provide better industrial infrastructure in the form of Industrial Parks, Industrial Estates, Industrial Clusters, Development Areas/Plots, and Special Economic Zones. Some sort of customised and industry-specific policy measures that could endeavour in reaching its objectives through state-of-the-art industrial infrastructure, encouraging eco-friendly enterprises, strengthening the MSMEs, inculcating entrepreneurship development, enhancing skills, simplification of rules and procedures, etc. must be initiated with a clear cut vision, objectives, and strategy so as to transform the State into a world-class business hub. It is in the context, the paper attempts to explore the crux of cluster-based industrial development in Kerala in terms of the operation of industrial estates and special economic zones.

Keywords: Kerala industry, industrial infrastructure, MSMEs, industrial clusters, industrial estates, special economic zones

1 Introduction

The prospects for Kerala's industrial development depend largely upon the willingness on the part of the policymakers to accept realism with a pragmatic approach. The Government has come forward with many structured and well-defined policies and pioneering initiatives to transform the State into a vibrant entrepreneurial society with faster, inclusive, and sustainable economic growth. 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 MSME sector through sufficing investments, technology upgradation, diversification, and modernisation. Cluster-based industrial development as a constructive channel of industrialisation of the State 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 Kerala.

1.1. Industrial Cluster Development in Kerala – The Rationale and Linkages

Industrial clusters are recognised as an important instrument for promoting rapid industrial development, innovation, competitiveness and economic growth. They are defined as groups of interlinked companies, suppliers, and associated institutions providing a related group of products and services in a specific geographic region. They are often concentrated in a region or a town, include companies from different industries that are related to each other in the production of goods and services, and benefit from the cooperation with

Government agencies and other institutions in the national and regional innovation systems. Industrial clusters play a pivotal role in the overall industrial development of Kerala and the Government bestows highest priority to attract investments from both domestic as well as foreign sources in its crucial industrial sectors to accelerate inclusive economic growth and development in a sustainable manner. The Government has adopted 'cluster development' as a strategy for enhancing the productivity and competitiveness as well as capacity building of the micro and small enterprises in the economy.

There are many explicit advantages associated with industrial clusters. They 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 industrial clusters can operate with higher efficiency, drawing on more specialised assets and suppliers with shorter reaction times than when working alone. They can collaborate with research institutes, technology labs, productivity centres, venture capitalists, and other providers of business development services. Most clusters are developed as 'production hubs' that they have the entire value chains augmented within the cluster. Each firm is specialised and is connected with other firms through production networks. This increased efficiency and survival rate through strong forward and backward linkages in the value chains. The combination of these potential benefits has a positive impact on the ability of companies to engage in global value chains and enable them to acquire new competences and access to international markets.

Thus, business formation tends to be much higher in industrial clusters as they enable small entrepreneurs to reduce cost of inputs and marketing and enables them to build strong brands that are required to compete effectively in the market. The

Government 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. In a globalised economy in which global value chains link companies across borders, industrial clusters have 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.

1.2. Industrial Estates – The Framework and Operational Mechanism

Industrial estates are the specific areas of land set aside for small scale industrial development of the State. They are the cradle zoned for industrial activities in which basic infrastructure and other utility services are provided to facilitate the growth of industries and to minimise impacts on the environment. Setting up of industrial estates enables cost savings, socio-economic exposures and advancements, and environmental improvements through: (i) Effective dissemination of instruments and management methods between companies located inside the estates, (ii) Close

cooperation of companies with respect to economic, environmental, and social issues, (iii) Better and improved communication between stakeholders and customers, and (iv) Synergy effects through joint use of infrastructure, joint procurement of production resources and raw materials, and by-products exchange [16].

Industrial estates attract industrial facilities by offering an attractive package of services that can be supplied continuously, reliably, and at a cost that the entrepreneurs could not achieve on their own. The package of services is often complemented with various forms of preferential investment incentives such as exemptions from import or export duties, income tax exemptions, and various other subsidies. There are two types of industrial estates in Kerala, namely: (i) Mini industrial estates, and (ii) Major industrial estates which are under the supervision and surveillance of the District Industries Centres (DIC) as well as the Kerala Small Industries Development Corporation (Kerala SIDCO). The total number of mini industrial estates under the DIC as on 31st March, 2016 is 112 and the total number of working SSI units in these estates is 857 with a total employment of 3490 persons. The details of mini industrial estates under the District Industries Centre as on 31st March, 2016 are given in Table-1.

Table 1: Details of Mini Industrial Estates under District Industries Centre (As on 31st March, 2015)

District	Total Number of			
	Industrial Estates	Working Units	Employment	
1	Thiruvananthapuram	07	53	150
2	Kollam	05	50	160
3	Pathanamthitta	20	20	060
4	Alappuzha	07	52	095
5	Kottayam	11	96	343
6	Idukki	04	39	109
7	Eranakulam	19	160	1528
8	Thrissur	10	150	494
9	Palakkad	06	42	145
10	Malappuram	05	33	112
11	Kozhikode	08	90	225
12	Wayanad	01	04	010
13	Kannur	04	29	105
14	Kasargod	05	39	054
Total		112	857	3590

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

The Kerala Small Industries Development Corporation (Kerala SIDCO) provides basic infrastructure facilities such as land, water, work shed, and distribution of scarce raw materials to the industrial units in the small scale sector. There

are 36 mini industrial estates under Kerala SIDCO in which 1303 employees are working in 295 units all over the State. The details of mini industrial estates under the Kerala SIDCO are given in Table-2.

Table 2: Details of Mini Industrial Estates under Kerala SIDCO (As on 31st October, 2016)

District	Name of the Industrial Estate	Total Number of		Income (Lakh)*	
		Units	Employees		
1	Ulloor	09	60	16.27	
	Anad	05	42		
	Vellanad	10	31		
	Varkala	07	35		
2	Chithara	07	31	20.51	
	Thirikkovilvattom	03	24		
	Chadayamangalam	05	25		
3	Pathanamthitta	Pandalam	05	25	01.25

4	Alappuzha	Kadakarapally	10	36	00.05
		Mararikulam	12	45	
5	Kottayam	Nattakam	08	46	21.56
		Ayarkunnam	05	40	
		Pampady	03	25	
6	Idukki	Olamattom	05	40	06.49
		Kodikulam	04	20	
		Adimali	05	35	
7	Ernakulam	South Vazhakulam	13	44	25.23
		Piravam	04	35	
		Kothamangalam	04	25	
		Edathala	05	30	
		Rayamangalam	09	32	
8	Thrissur	Mala	12	44	11.49
		Kattur	11	45	
		Arimpur	15	42	
9	Palakkad	Ottapalam	10	44	00.50
		Vaniyamkulam	11	55	
		Pattambi	10	40	
10	Malappuram	Edavanna	07	20	04.35
		Oorakam	10	28	
		Kokkur	08	21	
11	Kozhikode	Kadalundi	12	60	06.36
		Perambra	13	42	
12	Wayanad	Sulthan Bathery	10	25	00.10
13	Kannur	Baliyapattom	06	26	12.83
		Taliparamba	09	25	
14	Kasargod	Kanhangad	13	60	02.42
Total		36	295	1303	129.41

Source: Directorate of Industries and Commerce, Government of Kerala. * The income generated in the year 2014-2015.

There are 17 major industrial estates under the Kerala SIDCO which include 882 working units providing an employment to 7394 persons as on 31st October, 2016. The details of major

industrial estates under the Kerala SIDCO in terms of the total number of working units, employment, and income generated are given in Table-3.

Table 3: Details of Major Industrial Estates under Kerala SIDCO (As on 31st October, 2016)

District	Name of the Industrial Estate	Total Number of		Income (Lakh)*	
		Units	Employees		
1	Thiruvananthapuram	Pappanamcode	76	820	51.32
2	Kollam	Umayanallor	77	375	19.65
		Karunagappally	22	145	
3	Alappuzha	Cherthala	26	251	14.30
		Kollakadavu	46	450	
4	Kottayam	Changanacherry	72	985	16.90
		Ettumanoor	73	1250	
5	Ernakulam	Mudickal	13	060	00.53
		Palluruthy	06	110	
6	Thrissur	Ollur	133	922	17.59
		Kallemkara	16	270	
7	Palakkad	Olavakkode	41	248	04.15
		Karakkad	48	379	
8	Malappuram	Manjeri	73	183	00.36
9	Kozhikode	West Hill	50	361	06.27
10	Kannur	Palayad	42	265	11.27
11	Kasargod	Kasargod	68	320	53.69
Total		17	882	7394	196.05

Source: Directorate of Industries and Commerce, Government of Kerala. * The income generated in the year 2014-2015.

The Government envisages the setting up of industrial estates in all the Legislative Constituency with the active cooperation of local bodies for the balanced industrial growth of the State, especially the development of small and medium sectors of the economy. Economies of scale, economies of agglomeration, benefits of interrelatedness, low investment, availability of

better infrastructure and support services, mutual cooperation and focused business, increased employment opportunities, and the development of backward areas are the major advantages of industrial estates that the Government is trying to reap in its march towards faster and balanced industrial development of the State.

1.3. Special Economic Zones in Kerala – The Crux and Potential Benefits

In line with the Special Economic Zone Act passed by the Government of India in the year 2005, the State Government of Kerala is also envisaged the development of an internationally competitive and hassle-free industrial environment in designated zones so as to speed up its process of industrial development. It aims at to overcome the shortcomings experienced on account of multiplicity of controls and clearances; absence of world-class infrastructure; the unstable fiscal regime; and with a view to attract larger domestic as well as foreign investments. SEZs are the specifically delineated duty free enclaves for the purpose of trade, operations, and duty and tariffs. They are the self-contained and integrated geographical regions having their own well built infrastructure and support services.

Kerala was the first State in India to set up a Special Economic Zone. The Government attempts to make SEZs an engine of growth that can boost manufacturing, augment exports, and generate employment. They are supported by quality infrastructure complemented by attractive fiscal packages, both at the Centre and the State level with simplified procedures, less regulations and restrictions, and other numerous exemptions and incentives. The main objectives of the SEZ Act, 2005 [17] are:

1. Generation of additional economic activity.
2. Promotion of exports of goods and services.
3. Promotion of investment from domestic and foreign sources.
4. Creation of employment opportunities.
5. Development of infrastructure facilities.

The SEZ policy is expected to trigger a large flow of foreign and domestic investments in the designated Special Economic Zones in infrastructure and productive capacity, thus leading to generation of additional economic activity and creation of

employment opportunities which will ultimately paves the way for faster and sustainable industrial growth in the economy. The major incentives and facilities offered to the units operating in SEZs may be listed below:

1. Duty free import/domestic procurement of goods for the smooth development, operation, and maintenance of the SEZ units.
2. 100 per cent Income Tax exemption on export income for the SEZ units for the first five years; 50 per cent for the next five years thereafter; and 50 per cent of the ploughed back export profit for the next five years.
3. Exemption from Minimum Alternate Tax.
4. Exemption from Central Sales Tax.
5. Exemption from Service Tax.
6. Exemption from State Sales Tax and other levies as extended by the State Governments.
7. External Commercial Borrowings by the SEZ units upto \$ 500 million in a year without any maturity restriction through recognised banking channels.
8. Single Window Clearance for the Central and State level approvals.

Special Economic Zones (SEZ) normally minimise the costs through fiscal incentives and administrative efficiencies; provide access to serviced land and a more reliable infrastructure; reduce risk; and provide a vibrant atmosphere of operational and strategic flexibility. Considering all these benefits and its impact on the industrial economy, Government of Kerala is encouraging the development of Special Economic Zones. SEZs are an acknowledgment of the potential export-led development strategy in accelerating competitiveness and regional economic growth. As per the estimates of the Ministry of Commerce and Industry, Government of India, there are 16 operational SEZs in Kerala as on 1st September, 2016. The details regarding the operational SEZs in Kerala are given in Table-4.

Table 4: Details of Special Economic Zones (SEZ) In Kerala (As On 1st September, 2016)

	Name of The SEZ	Place/District	Thrust Area
1	Cochin Special Economic Zone	Kochi, Ernakulam	Multiproduct
2	Cochin Port Trust	Vallarpadom, Ernakulam	Port-Based
3	Cochin Port Trust	Puthuvypeen, Ernakulam	Port-Based
4	Infopark	Kakkanad, Ernakulam	IT/ITES
5	Infopark	Kunnathunadu, Ernakulam	IT/ITES
6	Electronics Technology Park: SEZ-1	Thiruvananthapuram	IT/ITES
7	Electronics Technology Park: SEZ-2	Thiruvananthapuram	IT/ITES
8	Electronics Technology Park (Technopark)	Thiruvananthapuram	IT/ITES
9	KINFRA Film And Video Park	Kazhakkuttom, Thiruvananthapuram	Animation And Gaming
10	KINFRA Hi-Tech Electronics Park	Kalamassery, Ernakulam	Electronics Industries
11	KINFRA Food Processing Park	Kakkancherry, Malappuram	Food Processing
12	Kerala State Information Technology Infrastructure Ltd.	Cherthala, Alappuzha	IT/ITES
13	Kerala State Information Technology Infrastructure Ltd.	Mulavana, Kollam	IT/ITES
14	Kerala State Information Technology Infrastructure Ltd.	Nellikode, Kozhikode	IT/ITES
15	Carborundum Universal Ltd.	Thrikkakara North, Ernakulam	Solar Photovaltaic
16	Sutherland Global Services Private Ltd.	Thrikkakara North, Ernakulam	IT/ITES

Source: Ministry Of Commerce and Industry, Government of India.

In addition to this, many other projects got formal approval from the Government. The most important among them is the Smart City Kochi, an IT Special Economic Zone which started

its first phase of operations in May, 2016 and is expected to be fully operational by the year 2020.

2. Conclusion

Kerala requires a much more focused approach towards spearheading innovation, entrepreneurship, and skill development in the economy so as to boost its industrial innovations and development. The Kerala Perspective Plan (KPP) 2030, a strategic articulation of the development vision, mission, goals and objectives of the State, prepared by the Kerala State Planning Board in 2015, provides a strategic framework of resources, competencies, and capacities for sustainable and inclusive growth and sets certain benchmarks to evolve Kerala into a knowledge-driven competitive economy with the spirit of entrepreneurship, innovation, social inclusion, tolerance, and diversity. The Government encourages employment-oriented, environment-friendly, and non-polluting industries that have the potential to compete with global players. It aims at revamping Kerala into a leading business cynosure with 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.

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