

# Manufacturing Business in Kerala: A Study of Problems and Government Initiatives

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## Abstract

The study focuses on identifying the various challenges faced by the manufacturers in the state of Kerala and the government measures taken to overcome these hindrances and to enhance the ease of doing business in Kerala. The focus of the study is on the facts the manufacturers are hesitant to do manufacturing businesses in other states compared to Kerala. The study thus identifies and compares various reasons why the manufacturers choose other popular manufacturing hubs in Kerala. In the wake of COVID-19, the economy of every country has shattered and India is no exception. But the state is rising from the after-pandemic impact by improving their economic transactions through inviting more business industries mainly manufacturing businesses by enhancing the ease of doing business. But in case of Kerala, the state has no reforms made before the pandemic and is now striving to achieve better rank in ease of doing business. In Kerala to overcome the problem of less business investments and the losses caused by the pandemic the state governments make several reforms and amendments in the existing acts to invite more businesses. The study thus evaluates the perception of manufacturers towards various schemes or government initiatives in Kerala.

**Keywords:** Ease of Doing Business, Manufacturing Sector, Investors, Reform

## Introduction

Among the 190 economies in the Ease of Doing Business, India is ranked as 63<sup>rd</sup> in 2019 from 77 in 2018. The Government of India in 2014 launched a program for reforms in regulations to make it easier to do business in India. Through the programme, the government focused on providing a great deal and effort to create a business-friendly environment. The improvement of India is of 3<sup>rd</sup> time in a row with 67<sup>th</sup> rank in just 3 years. Today India is emerged as one of the attractive destinations to do business because of the positive changes made by the governments in the previous years. The major changes that India had brought was the decrease in the number of procedures to acquire the construction permits and to get electricity. It just takes 53 days and only 4 simple procedures to get electricity for a business. There are several other Central and State Government initiatives that helped in bringing more business in India and those initiatives dealing with the construction permits, Trading across borders through India's Customs Single Window Project and limiting the number of mandatory documents, enforcing contracts, getting credit, resolving insolvency, payment of taxes, etc. Apart from the central government the state government also took several measures to enhance the overall business in India. The

simplification of the whole procedure to start business has enhanced the number of business investors in India and it has a long way to move on. (Ease of Doing Business, 2019)

Specifically coming to the State of Kerala, which is a prominent in different areas like education, health services etc, the ease of doing business is comparatively low ranked compared to other states of India in the index which was presented by the Reserve Bank of India in 2019. Kerala was ranked 23<sup>rd</sup> which is the lowest among the previous years and the contradiction is that the state is ranked below many states and union Territories where the industrial practices are comparatively less. The government of India was slowed by the ranking and there was a stiff between the two authorities regarding the scaling of Index and method of evaluating the ranking position. The State government had implemented all the proposals put forward by the central government to come out top in the rankings. The criteria of the ranking also pointed out the fact that a survey is to be conducted to evaluate the ease of doing business from the business men of the concerned states. After all those contradictions and mismatches the Centre is considering to revise the norms of evaluation of ease of doing business Index.

Meanwhile another fact to be taken into understanding is that, in Kerala, the manufacturing business are comparatively lower than the retail business. It means that the state is not friendly for the manufacturers but has a good number of retailing outlets of different businesses in Kerala. It means that the retail outlets are having good outcome when operating in the state of Kerala and the manufacturing industries does not find it productive to function in Kerala. This can also be a reason for the rank to come down compared to the other states in the country where there are more manufacturing business taking place. To enhance the ranking in ease of doing business the state should focus on incorporating more manufacturing ventures.

Unemployment nowadays is a major problem faced by the Indian economy. There are lot of young and talented professionals who are unemployed in India. Through promoting more manufacturing industries in the country compared to the retail business sectors and other sectors can provide a wider scope of employment opportunities for the young talents of the country. The central and state governments of India have enhanced and regulated the norms and an effective implementation of the same in the coming years can bring India in the front of ease of doing business ranking.

### **Review of Literature**

Yadav et al. (2020) evaluated the impact of e governance in India on the ease of doing business. The study thus examines various factors that imposes impact on the ease of doing business concluded that e governance and the internet matters the most for ease of doing business.

Ghosh et al. (2019) focused on the Sustainable Development Goals index of US and the Ease of Doing business in India on a state wise examination. The study explains that the analysis made it evident that the SDGs index is statistically consistent compared to the Ease of Doing Business and the promotion of the sustainable Development goals is not far from the promotion of investments in the nation.

Dissanayake et al.(2019) focused on the green practices adopted by the manufacturing companies of Cochin, a city in Kerala. The researcher aims at exploring various green practices, strategies and challenges for the implementation of the sustainable practices in a geographical location similar to Sri

Lankan and they choose Kochi It is concluded that for the success the SMEs should have their own will and support of government intervention in promoting the practices.

### Objectives

1. Identify the reasons for manufacturing industries to choose states other than Kerala.
2. Identify various measures of ease of doing business taken by the State Government of Kerala
3. Study the perception of manufacturers towards the various government initiative schemes.

### Research Methodology

The study is descriptive and analytical in nature. The study uses both primary data and Secondary Data. The primary data is collected from 40 manufacturers in Kerala using questionnaire method. The samples are selected using purposive sampling method. Equal representation is taken from the assembling industries and processing industries. Secondary data from various sources like published and unpublished journals, newspapers, magazines, articles, reports are used for the study. The data is analysed using Friedman Test, and Mann Whitney U Test.

### Analysis and Discussion

#### Reasons for Manufacturing Industries to Choose States Other than Kerala

##### Why Not Kerala?

Kerala is ranked 28<sup>th</sup> among the other states in the Ease of Doing Business Index presented by the Reserve Bank of India in the Year 2019 which blow out the State Government which as expecting a better ranking position. Other States like Andhra Pradesh, Telangana, Uttar Pradesh have attained the first three positions. That makes it evident that Kerala is not considered as an industry friendly state compared to other states of India. Even though there was stiff regarding the ranking position and the illogicality in scaling up the rank there are several reasons why the investors do choose states other than Kerala for setting up manufacturing industries and is not interested in setting up the same in Kerala.

**High Density of Population and Cost of Land in Kerala.** A business-friendly state is the one with less population and large land area. The area of Kerala is 38,863 square km with the population of 3.5 Crore people. And the State of Kerala is three times smaller than the geographical area of Telangana which acquires the first rank in the Ease of Doing Business Index. The availability of land for the manufactures is low in Kerala as compared to the other highest ranked states of India. It is thus evident that high density is one of the reasons that hinders Kerala from being the hub for manufacturers. Furthermore, 30 per cent of the land is forest which is restricted from allowing manufacturing industries. The high density of Kerala and limited available land has also resulted in the high cost of land which is also an added disadvantage to those who wish to start their business in Kerala. The cost of land in Kerala is much higher than the average of many other states of India thus causing the paucity of such manufacturing enterprises in Kerala.

**Ecologically Sensitive Land.** The study conducted by the Western Ghats Ecology Expert Panel in 2011 under the chairmanship of Madhav Gadgil, a famous ecologist stated that many places in Kerala are ecologically sensitive and is not suitable for manufacturing industries since it would adversely affect the environment. This turns out to be one of the major reasons why not an enormous manufacturing industry are operating in Kerala compared to other states of India.

**Higher Labour Cost.** Apart from the high density and cost of land the other reasons which demotivates the manufacturers to invest in Kerala is that of high labour cost. A study conducted by Government of Kerala and UN experts termed as "Kerala Post Disaster Needs Assessment" (2018) stated that 3.5 million skilled and unskilled labourers are working in various sectors of Kerala. This rise in migrant labourers is due to higher wages in the state. A report published by the Labour Bureau under the Ministry of Labour and Employment mentions that the average of wages of a male skilled labourer of Kerala is Rs. 700.7 whereas the national average is Rs.286.6 and is the highest wage paid to the unskilled laborers among the states ranked in the top positions of ease of doing business index. Interestingly, some of the states with lowest average wages are known for their 'industrial friendly' nature. Thus, it is evident from the studies that the high wages are always an attraction for the migrant labourers but it is deterrent for the manufacturers or investors.

**Higher Literacy Rate of Kerala.** Kerala is a state with higher literacy rate and it can be regarded as a sign of social development. The higher literacy rate is considered as a potential risk for the manufacturers or investors because the people are aware of their rights. The investors find it difficult when people know their rights there would be a quick start for fights. These fights can lead to various conflicts between the workers and the management. There are several cases of such conflicts in Kerala which had even resulted in closing and winding up of the companies in the past. Even big Business Tycoons were victim for forceful shut down of the companies in the state. The closure of Grasim Industries Limited owned by Aditya Birla in 2001 for the peoples protest against the environment pollution and employee rights violation is a perfect example. Likewise, there was a protest against Kitex Garments against environmental Pollution and the company is facing issues regarding it in the court. The manufacturers or investors are unnerved by the political mobilisations of the workers in the state of Kerala. (Abhilash, 2021)

**Government Rules and Regulations.** In the past there have been redundant rules and regulations by the state government that restricted the investors from doing business in Kerala. It has resulted in shifting the mindset of manufacturers to opt other investor friendly states than starting up a business in Kerala. It affected the ranking position of the state in the Ease of Doing index of India and was dropped down far from where it was in the beginning. The rules and regulation of the government for doing business had thus demotivated the investors.

Apart from these reasons there may be various reasons that deters the investors or manufactures towards Kerala like unavailability of required raw materials, transportation cost for raw materials, improving supply chains and logistics etc would be among them.

H<sub>0</sub>: There is no significant difference in the reasons for the manufacturers to opt states other than Kerala.

H<sub>1</sub>: There is significant difference in the reasons for the manufacturers to opt states other than Kerala

From Table 1, it is evident that the major reason for the manufacturer to choose states other than Kerala is because the ecological sensitive land of Kerala which is unsuitable for manufacturing with the mean rank of 1.65 and the Government rules and regulations is the low considered problem by the manufacturer with the mean rank of 5.31.

Table 1: Friedman Test for the reasons for the manufacturers of not choosing Kerala

	Mean Rank	Rank
High Density of Population	5.26	5
Cost of Land	2.03	2
Ecologically Sensitive Land	1.65	1
High Labour Cost	3.24	3
High Literacy Rate	3.51	4
Government Rules and Regulations	5.31	6

Source: Primary Data

The Table 2 shows the validation of data using the Chi-Square Test and the p value is found to be less than .005. So, the null hypothesis is rejected, which means that there exists significant difference in the problems faced by the manufacturers in Kerala.

Table 2: Chi-Square Test Result for The Ranking of The Reasons

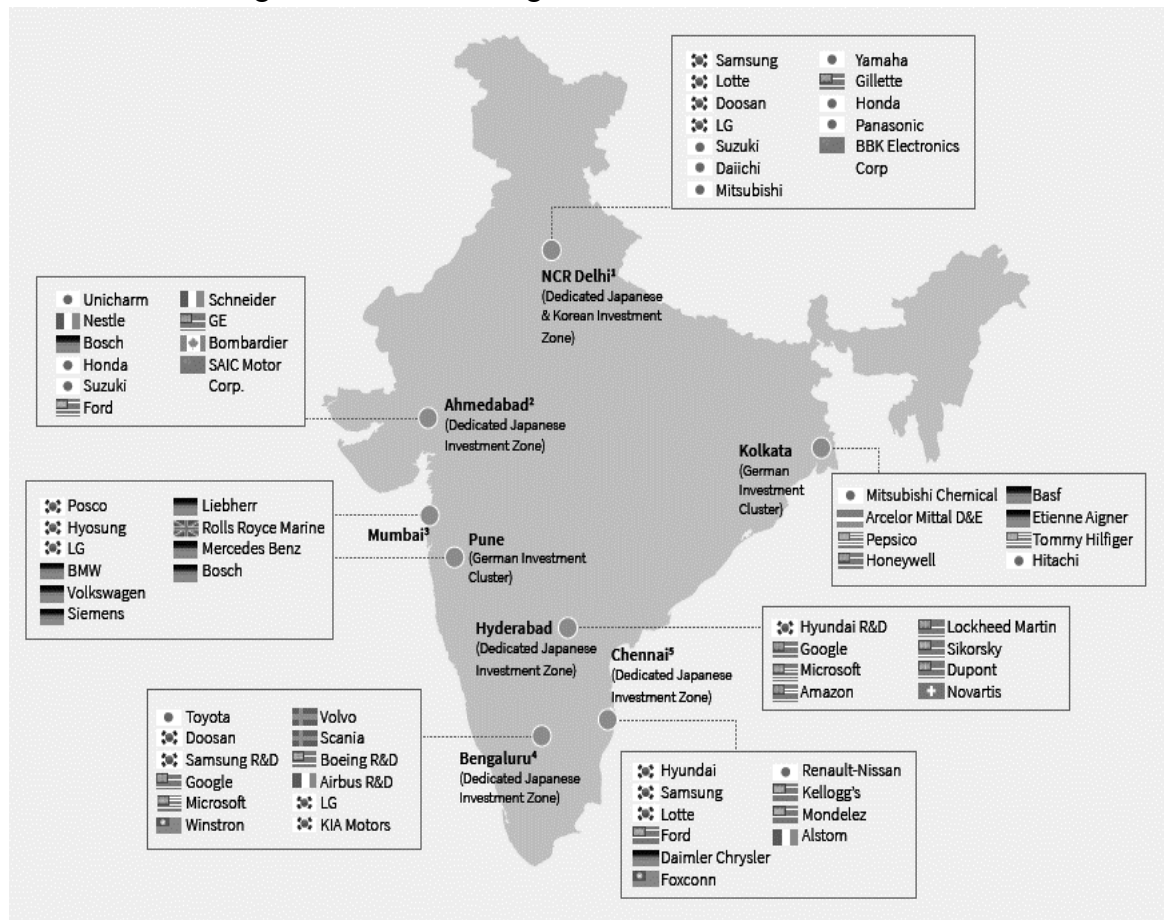
Test Statistics	
N	40
Chi-Square	138.407
df	5
Sig.	.000

Source: Primary Data

### Why other states in India?

Apart from Kerala there are several great manufacturing places in India. They offer a lot of facilities for the manufacturers. Since Kerala provides the manufacturers with challenges and huddles for the manufacturers there are several cities in different states of India which acts as manufacturing hub for many of the companies. In Telangana which is ranked 1<sup>st</sup> in the Ease of Doing Business, Hyderabad is a most popular manufacturing hub since it is a central location and a key to access the large hinterland. The city helps in fostering innovation in the manufacturing Sector. Noida in Uttar Pradesh is popular as a corridor for electronics manufacturing. The convenience of doing manufacturing business is based on the various resources, facilities and liberalised regulations. The manufacture is attracted to a particular city when the city provides them with what they require. It includes better labour, warehousing facilities, better logistics and transportation, liberal rules and regulations accessibility. The picture below shows the destination choices of various companies from various countries in India. (Pranav et al., 2020).

Figure 1: Manufacturing Destinations for MNCs in India



Source : Invest India Report

### Ease of Doing Business Initiatives by Government of Kerala

Government of Kerala actively and continuously participates to create a healthy industrial friendly environment and to improve state's ease of doing measures. The Government has major focus on attracting manufacturing industries by simplifying and abolishing the existing rules and regulations in the state for business. The state has also introduced various technologies to make the state's governance more active, efficient, transparent, effective and user friendly. Government is taking proactive steps to improve the business ecosystem in the state whenever necessary. Following are the some of the measure taken by the state.

### The Kerala Micro, Small and Medium Enterprises Act 2019

The act was implemented to liberalize and exempt the MSMEs from inspections and approvals for starting up a business unit in the state from 2019. In the state of Kerala, industries are facing administrative and bureaucratic issues such as issuing license, inspections, approvals and renewals. Kerala has a large volume of ecologically sensitive land which will be harmfully affected by various industries and the state has only limited resources for industrial undertakings. Hence, the government has to take various control measures to protect the environment and also should takes steps to attract industries into the state which will results in developing employment opportunities and economic growth for the state. This act ensures speed and simplified registration and approval for business units having a capital of not more than ₹ 10 Crores and not included in the red category. According to this

law, after getting the approval for business units, no concerned authority shall undertake any raid or inspections for a period of three years. The act ensures that competent authority have the power to grant exemption for the enterprise for having license, approval for a period of 3 years after issuing the acknowledgement certificate. According to Section 3 of The Kerala State Single Window Clearance Board and Industrial Township Area Development Act 1999, the state will exercise the power of the authority

### **The Kerala State Single Window Clearance Board and Industrial Township Area Development (Amendment) Act 2019**

The act originally implemented in 1999 was amended in 2019 for strengthening of existing District Single Window Boards and Industrial Park and to establish healthy Government and Entrepreneur's relationship in the state. Amendment of Sub section 6 of the act, a secretariate was formed to assist the state board and to coordinate different functions of the department. As per the amendment, state government focuses to prioritize different industrial sectors which is the key drivers for future growth and to set up industrial parks having a geographical land of more than 2000 acres. The industrial parks will concentrate on the business units engaged in assembling and manufacturing activities.

### **The Kerala Investment Promotion and Facilitation Act 2018**

The act was implemented by the Government of Kerala to eliminate the time-consuming procedures in granting permissions, various licenses, approvals. Normally, business enterprises face the problem of delayed paper works for starting their business establishments especially in Kerala. The act also ensures the liberalization and abolishment of rules and regulations regarding the pollution control measures of the state. The time-to-time approval, easy renewal and other utility services are the main focus of the act. It also ensures the creation of environment friendly business culture in the state. Under the act, the government ensures that the redundant regulations are eliminated, clearance procedures are simplified and standard operating functions are established. For supporting the enterprises, Government of Kerala have developed Investment Facilitation and Promotion Cells in all the districts of the state.

### **Kerala Single Window Interface for Fast and Transparent Clearance (KSWIFT)**

It as an initiative of Government of Kerala, a web-based application for operating transactions with the state government regarding the granting of license, permission and approvals. Currently, 16 departments are working and their services are available in KSWIFT portal. All the clearance services are done through a common application form. It ensures speed, transparency and real time clearance services thus avoiding the limitations of offline clearance procedures. To expand and strengthen the KSWIFT, the state has plans of including renewal services and centralised inspection system through online platform. Investment facilitation and promotion cells are established at state and district level throughout the state.

### **Invest Kerala Portal**

It is established by the Department of Industries and Commerce, Government of Kerala under Kerala State Industrial Corporation Ltd as a single window interface to provide detailed technical assistance in setting up an enterprise in the state. It is a single window facilitator which enables various assistance for hassle free business promotion services across the state. The major focus of the portal is to address all the grievances and queries of an emerging entrepreneur and to provide information based on rules and

norms, procedures, schemes, services, bank details, and investment wizards prevailing in the state. It ensures smooth interaction with clients and make real time approvals.

### Other Initiatives of the State Government

Government of Kerala also provides financial assistance in the form of subsidies for Small Scale industries and has also enabled various assistance to the business units. Further, more acts were implemented and amended to create an economic friendly environment in Kerala. The Kerala Panchayat Raj Rules 1996 (regarding issuance of permission to offensive and dangerous trades and factories), Kerala Municipality Rules Kerala Panchayat Raj Building Rules 2011 and Kerala Municipality Building Rules 1996 were liberalised.

H<sub>0</sub>: There is no significant difference in the perception regarding the government initiative schemes among the processing industries and assembling industries.

H<sub>1</sub>: There is significant difference in the perception regarding the government initiative schemes among the processing industries and assembling industries.

Table 3: Perception of the manufacturers regarding the Government Initiative Schemes

Ranks				
	Classification	N	Mean Rank	Rank
Government Schemes to Promote Manufacturing Businesses in Kerala	Processing Industries	20	22.45	2
	Assembling Industries	20	18.55	1
	<b>Total</b>	<b>40</b>		

Source: Primary Data

The Table 3 depicts that there exists more positive perception regarding the government schemes by the assembling industries compared to the processing industries with the mean rank of 18.55 and 22.45 respectively.

Table 4: Perception of the Manufacturers Regarding the Government Initiatives

Mann Whitney U Test Statistics	
Government Schemes to Promote Manufacturing Industries in Kerala	
<b>Z</b>	-1.075
<b>Sig</b>	.283

The Table 4 depicts that the Z value is -1.075 and the significance is .283. As the significance level is greater than .05 (P value > .05), failed to reject the null hypothesis. Hence, there is no significant difference between the perception of manufacturers in assembling and processing industries regarding the government initiatives schemes.



## Findings

Even though the state has enough land, it is ecologically sensitive and thus not suitable for the manufacturing industries to run their business and the cost of land is also high compared to other states in India. The high literacy rate and high labour costs are also the other major problems that makes the manufacturers reluctant to do their business in Kerala. The state government has implemented a number of schemes for the enhancement of manufacturing businesses. But the problem lies in the fact that the effectiveness of these schemes is not up to the mark and thus the further proceedings are unidentifiable by the government. The government is focusing on improving the accessibility of the available schemes and measures for the manufacturers and is not considering to find new possible ways to make it more friendly the manufacturing businesses.

## Conclusion

Since Kerala is ranked 28<sup>th</sup>, the government of Kerala has taken several measures to overcome the status of ease of doing business but the state finds it difficult to find the expected results. Currently, the government is focussing on liberalising administrative and political rules to enhance more business but there are certain other factors which requires importance such as attracting environment friendly business, using natural resources for the business, easy access of cheap labour and raw materials, ensuring the quality of products and services. Thus, to enhance the rate of business in the state and to come forward in the ranking the government should focus on giving equal importance to the interests of investors or manufactures and to the environment.

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