

An agenda for the future

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I am very pleased to be with you for the discussion on Kerala Budget 2022-23 jointly organised by GIFT, Department of Economics, University of Kerala, Centre for Budget Studies, CUSAT and CII Kerala. It is not by accident that the annual budget of the state is presented subsequent to the release of the Economic Review, an annual publication of the Kerala State Planning Board. The Economic Review is the authentic document on the state of the economy and it provides the setting within which the state budget is presented. With the publication of Economic Review, we are well aware of the economic situation in Kerala. Thanks to our vibrant print and visual media, we are also well informed about state of the national economy and the global economic developments. We are going through very difficult times and we need to move forward very carefully. I firmly believe that concealment of facts is not conducive to a transparent economic process. I was not at all hesitant in placing the facts before the people. At the same time, when I was speaking in the Assembly, I presented things with higher level confidence saying that the economy of Kerala will move firmly forward.

I am inclined to believe that although we are abreast with development across the world, we do not adequately discuss the relevance of the ongoing situation in Sri Lanka for us. It is rather surprising that the Sri Lankan situation is not receiving even one-tenth of our discussion about the Russia-Ukraine conflict. True, Ukraine - Russia conflict is a very important issue for us as well.

Political crisis usually leads to war. But we are also seeing the catastrophic consequences of an economic crisis. Look at the situation in our neighbouring country- Sri Lanka. Tourism is

one of the leading sectors of that economy. By now, the adverse effect of the covid-19 induced lockdown on the tourism sector across the world is well known. Sri Lanka, with its high dependence on tourism has been one country which was hit hard by the pandemic. Those who have been to Sri Lanka know that there is so much in common between us. 'Padippura' and coconut tree are common there. The staple food of Sri Lanka is 'Idiyappam' and coconut chutney (Thengachammanthi) which is available everywhere. dried fish and tuna are the most common curry in Sri Lanka. Every house usually has a Padippura door. Ponds are common in every house. These are all very much similar to our tradition. As far as Sri Lanka is concerned, fertile land is available in plenty for cultivation. More land area than Kerala in terms of population. Above all, like Kerala, Sri Lanka is also known for their high human development indicators.

Why such a deep economic crisis in a country with high human development and rich resource endowment? One of the important reasons is that the government is not paying enough attention to the agricultural sector, due to the so-called over-emphasis on organic farming. This is because of the wrong perspective; why should one engage in agriculture when rice and other food items are available from elsewhere at low price. Sri Lanka is a major importer of petroleum, food and industrial products. The crisis indicates that even when an economy depends on remittances from expatriates, there is the need to ensure the domestic production of basic needs through promoting agriculture and industry for example. Development of infrastructure, including health and education, needs to be ensured for inducing others to invest for our future development. This may not be easy to achieve. However, we need to discuss these issues in the changed global context. In fact, while reflecting on a long-term development strategy, the Sri Lankan crisis should be a lesson for us, we have many similarities in population, geography, culture, among others.

Need for a long-term perspective

There are reasons to believe that Kerala, at present, is at a particular juncture of development that makes a long-term perspective imperative while being cognisant of the short-term issues. I am not going to elaborate on the context before this erudite audience. From a demographic perspective, for example, the aging population of Kerala is increasing. Our old aged population, at present, is about 17 per cent which is comparable to some of the European countries. Over the next ten or fifteen years, it could be as high as 25 percent of our total population. Already in many parts of Kerala, like Central Travancore, only the elderly people

are at home. Aging is indeed a challenge as well as an opportunity. We cannot afford to compromise on the support system to be provided for the elderly. At the same time, aging is an opportunity for creating new income and employment opportunities through the innovative development of the care economy.

The issue of ageing is much more intense in the developed world. In many of these countries the youth population is on the decline and they need human resources, not only for the highly skilled jobs but also for many other jobs such as home nurse. Many of the students from Kerala who go to foreign countries like Canada, Australia and others for studies are not inclined to return. Around 100 years ago we were the pioneers in immigration. There is an argument that if we train our people and send them abroad, they will bring money back - the so-called remittances. While I always welcome remittances and migration, I don't consider it as the most appropriate way to reap the demographic dividends. Please remember, the remittances are only a very small fraction of the value that they make abroad. We should be able to fully utilize the manpower resources available here such that they make and take value here. We were the first to start a Technopark in the country. When television was not widespread even in South Korea, we manufactured them here. In the 1970 electronics production in India and South Korea was almost comparable; But now South Korea is the world leader in such manufacturing and we are nowhere.

Transforming agriculture

I have learned a lot about the state of agriculture through my long active involvement with Karshasangam. I'm much concerned, like many others, about the present plight of Kerala's agriculture sector. We are committed to make a major change in agriculture. It is indeed in continuation of the initiatives by the former finance ministers in sync with the discussions took place in the Left Democratic Front (LDF). Based on such discussions, funds have been allocated for everything from the use of technology for agricultural development at the primary production level to help such producers moving up the value chain by enabling them to engage in the production of value-added products and also for ensuring a fair price for their output.

Thus ours is a three pronged strategy: First, increase the productivity of agriculture. Our average yield from pepper, a crop for which Kerala has been historically known for, is only around 250 kg per hectare. But the yield is at least 5-6 times higher in Vietnam. What is

more, as of now, Karnataka is the leading producer of pepper, not Kerala. The situation is not different in the case of our other vantage crops like coconut. To this end, there is the need to adopt innovative farming practices that involve increased use of small machines, among others, under the leadership of young people who don't perceive agriculture as inferior. I am happy to note that some youngsters who are working in IT sector told me that they would like to return to farming if the government provides adequate assistance. We are fully committed to offer the needed support.

Provision is made for loan up Rs. 50 lakhs, for small groups including a subsidy of Rs.10 lakh. Emphasis is placed on ultra-density farming and cold storage to ensure that the wastage minimised.

Kudumbasree and co-operative societies are effectively intervening in the sphere of production. But, much more needs to be done to ensure that we are not simply price takers and at the mercy of the market. The perils of being a raw material supplier for centuries to the monopolies is more evident in the case of natural rubber than elsewhere. We need to move up the value chain - this is our second strategy. Value addition alone may not solve the issue. Various studies have shown that the markets of farm products are far from efficient. As a result the traders' margin is substantially high in agricultural products and that the share of producers' in the consumers' rupee is only about 20%. Thus, our poor farmers are only makers of value not the takers of value. This has to change and hence our third strategy is to ensure that the farmers get their due share from the consumer's rupee.

We need a company with at least one billion dollars on the CIAL model for marketing. Rs 20 crore has now been set aside for this. It requires the services of people who have worked for multinational companies. Just as there is an exchange program for academics, there are plans for farmers to travel to countries with advanced farming practices, such as Israel and Vietnam, to learn from their experience with modern farming practices. An amount of Rs 2 crore has been set apart for this.

With the exception of the Gangetic basin, we have the rarest climate in the world, with the best soil, rain and sunshine. We have been cultivating a lot of plantation crops but for the past many centuries and we have been cultivating the same crops, such as rubber, tea, coffee, cardamom, cashew etc. Previously, farmers earned a decent income from rubber cultivation. But now even five acres of rubber will not fetch them an income of a government employee

working at the lowest level. However, new crops are not being grown. When a meeting of farmers was called, a farmer said that he was earning Rs 5 lakh from half an acre of dragon fruit cultivation. Even with a profit of Rs 1.5 lakh, it is a huge achievement. We shall promote the changes in cropping pattern to ensure the cultivation of high value crops.

Knowledge economy and higher education

Another area is higher education which is at the core of building a knowledge economy. More attention is being paid to the higher education sector and the infrastructure in education has been greatly enhanced. As part of this, Rs 20 crore each is being provided to ten universities for setting up Translation Research Centers in universities. These centers will be surrounded by incubation centers and start-ups. In addition, a five-year project is initiated for the introduction of new courses in universities. Three short-term courses will be started as part of this project. For this, the services of experts, including those from abroad, can be availed. Steps are being taken to improve the facilities in the hostels of higher education institutions, including universities. Campuses must be functional round the clock not 10:00am to 5:00 pm. A university should have at least five thousand hostel rooms. For this, 1,500 hostel rooms are being constructed for foreign students. In addition, 150 special scholarships are offered. This scholarship scheme will enable students to avail the services of eminent persons working in different fields in different parts of the world. These are some of the important projects that are going to be implemented within the university system. The strategy is to select an institution in each constituency and set up the infrastructure and production facility at a cost of Rs 1 crore. In some places this is already being implemented. Rs 150 crore is set apart for this as an experimental step.

Although government grants are limited, there are plans to start a few more independent institutions like GIFT. We can bring in some Centers of Excellence that are independent, not just within universities. Institutions such as CDS are among the best in India. Centers of Excellence will be established in this model in many areas.

It is often held that the potential for industrial development, based on large-scale resource-based and polluting industries, is limited in Kerala. Being a high wage economy, our strategy shall also not be to focus on sweat shocks competing on wage cost advantage. Hence, the potential of knowledge-intensive and high value industries has to be explored. Elon Musk's world attraction is not due to his extensive production, but to different ideas. Baiju's app

established by a Keralite has grown and drawn the attention at the global level. This means that there are many new potential industrial/service areas wherein Kerala could excel. As part of the pre-budget discussions, we had discussions with many Malayalee researchers around the world. There are many Malayalee students from humble backgrounds, studied in our universities reached up to Apple's M1 chip unit. If these talented people working abroad could be provided with stimulating opportunity to work here, some of them will be able to come back. Many are now going abroad. But they will come back if there are opportunities here.

Science Park is a continuation of projects like Technopark. Research should be done in the science park, products should be developed and marketed on an industrial scale. Initially, four science parks were intended. It is also a continuation of the research activities intended to be done in the universities.

The Indian Institute of Science was originally intended to be established in Kerala. However, due to various reasons, it was located to Bangalore. All the industrial establishments in Bangalore have sprung up around this institution. IISER was later established here wherein I have also been involved. Science parks can be started by contacting such institutions. Efforts are underway with Tata Steels to set up an institute. Some new ventures are going to be started in the health sector. Steps are being taken to set up a center in the field of nutraceuticals. This will help in value addition in our Jack fruit which is available in plenty. Small and medium enterprises will be encouraged to the maximum. For example, plug-and-play ventures like electronics can be started by providing infrastructure in the vacant space of companies like Kollam Meter Company, which has a long tradition of being in business.

Infrastructure holds the key

Our infrastructure, roads, railways, bridges among others, need to be improved. Anyone working, for example, in Kozhikode should be able to travel to another city of the state in two to three hours. In areas like Wayanad, we are planning Rs 2,500 crore twin city project. Even though our Technopark is the first venture in India, our IT exports are now less than two per cent. There may be shortcomings on our part in these matters. But we must address these shortcomings through discussion and collective action. New projects like K-Rail are being envisaged to provide a great leap forward in infrastructure development. Projects related to National Highway 66 is going to be completed within the next five to six years. Twenty-five

per cent of the land acquisition amount under this scheme (Rs 5600 crore) has been provided by the State Government. The cost of developing National Highway 66 alone will be close to Rs 60,000 crore.

None to be left behind

Although we are known for our social commitment, there are many being left behind. Hence, we have made a provision to see that every year the social welfare pension is increased by Rs.100. Even a mere increase of Rs 100 would require Rs 1000 crore. We have the largest Social Welfare Pension Scheme in India with over 60 lakh individuals. We need to take care of our next generations. The most important thing is to be able to set up a system that generates an income of Rs 2000 instead of giving Rs 1000 free. We spend about Rs 600 crore on the State Health Authority. There are forty-five lakh families receiving treatment costing up to Rs 5 lakh per year.

While keeping a long-term perspective, issues of immediate concern cannot be overlooked. It is also important to remember that economy must grow if development problems are to be solved. We are going through a period of great crisis. There are fiscal constraints. Last year on account of COVID and lockdown our tax revenue was only Rs 47,500 crore. This year we were able to collect Rs 58,000 crore. It is not a bad thing that the tax revenue has increased by 20 per cent, an increase of around Rs 11,000 crore. However, we need to beef up the own tax revenue. As is well known the central state financial relations need much improvement in favor of states. For us, our revenue deficit grant will cease within a year. While we received 2.5% of the divisible pool during the period of the 14th Finance Commission, our share came down to 1.95% as per the 15th Finance Commission award. The share of cess and surcharges (which are not shared with the states) in the total revenue of the centre has more than doubled. It is important that GST compensation continues. Many state governments have asked for continuing GST compensation but the outcome remains uncertain. These constraints notwithstanding, given the support of the people of Kerala, I am confident that we can firmly move forward.

GIFT has been undertaking a lot of policy-oriented research in the field of taxation and finance. We have been making use of them and more such studies are the need of the hour to devise strategies to overcome the fiscal constraints and implement varied programs to take the economy to a higher growth trajectory. I am very happy to note that GIFT is working with

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other institutions in accomplishing their mandate. Looking forward to the outcome of this deliberation as an input for further policy initiatives, I declare this workshop inaugurated.

(Based on the inaugural address by Shri K N Balagopal, Hon'ble Finance Minister and Chairperson, GIFT)