

Kerala Economy: Through the lens of GST data

Sushil Khanna

Professor, Indian Institute of Management (IIM), Kolkata

It is well-known that the Kerala economy is largely a consumption economy. However, in term of per capita income, Kerala ranks only third, after Haryana and Maharashtra, amongst major states. As National Sample Survey Office [NSSO] consumption surveys have repeatedly shown, consumers in Kerala enjoy the highest per capita consumption. This is because remittances by migrants from Kerala especially from the Middle East add another 30 - 35 per cent to Kerala's household disposable income. These remittances lie behind the high private consumption and the construction boom in housing and real estate. In contrast, Kerala has an under- developed manufacturing sector. As a result, the multiplier benefit of Kerala's consumption boom is reaped by neighbouring manufacturing states like Tamil Nadu and Karnataka.

The Goods and Service Tax (GST) data that is now available allows for an opportunity to explore the internal trade of goods and commodities. During the last financial year (2019-20), firms and/or economic agents in Kerala generated about 20 million transactions (Table 1) with value of goods traded at Rs. 4.3 trillion (Rupees 4.3 lakh crore). Of these, about 45 per cent of goods were traded within Kerala (Kerala-sellers to Kerala-buyers), while the remaining were shipped to Kerala from other states in India or abroad. Bulk of these goods were moved through roadways. This picture conforms to what the all-India GST data on commodity movements shows.

Table 1. Kerala commodity trade 2019-20

	Assessable Value (in Rs. billions)	No. of Transactions (in millions)
Intra-state Transactions	1,960.32	11.85
Inter-state Transactions	2,080.57	8.76
All Transactions	4,270.99	20.76

Kerala has huge trade deficit

Table 2 shows Kerala's trade with the rest of the country. Kerala imports from other states goods valued at approximately Rs 1.5 trillion, while it exports to other states commodities worth only Rs 550 billion. In other words, Kerala has a trade deficit of approximately Rs 1 trillion (Rs one lakh crore) with the rest of the country.

Table 2. Kerala's internal trade with neighbouring states (Rs billion)

	2018-19	2019-20
From other states	1,528	1,532
To other states	554	549
Kerala's trade deficit	974	983

This trade deficit reflects Kerala's small and under-developed manufacturing sector. It is well-known that among the four large southern states, Kerala has the smallest manufacturing at 9.5 percent of Gross State Domestic Product (GSDP). Compare this to manufacturing accounting for 15 per cent of GSDP in Karnataka and 20 per cent in Tamil Nadu. This deficit also means that the high consumption demand in Kerala actually creates demand and employment in neighboring states.

About one -third of the Rs 1.5 trillion worth of goods imported by Kerala from other states come from Tamil Nadu, while Karnataka ships Rs 250 billion worth of commodities. Kerala's major imports from these states consist of high value goods like motor vehicles, two wheelers, electronic consumer goods, light machinery and equipment and garments.

In return, Kerala exports to other states petroleum products, petrochemicals, rubber and plastic products and vegetables, spices and farm produce. In other words, other than supply from central public sector enterprises in Kochi and suburbs Kerala's exports mirror those of an under-developed agricultural economy.

Kerala has experienced a construction and real estate boom both for modern residential housing as well for shopping malls and commercial space. The inputs for this construction boom come from the neighbouring states, including Andhra Pradesh and Karnataka. Cement and ceramic goods for the construction industry are significant imports from these states.

The fact that Kerala has a deficit in its transaction with neighbouring industrialised states means that commercial vehicles from other states out number vehicles registered in Kerala on

its roads and highways. Every month, approximately, 1.4 million trips are made by trucks from other states on Kerala roads.

Kerala's international trade

Kerala's commodity exports still play an important role in its real economy. Last year, Kerala's foreign exports were a respectable Rs 150 billion with agricultural produce (spices, cashew nuts, coir, etc) and marine products accounting for roughly half its exports. This may be compared to Kerala's shipments to rest of India that were about Rs. 550 billion in 2019-20. The commodity composition of Kerala's sales to other countries and to neighbouring states is also similar, with agriculture, rubber and plastic goods etc. dominating both the segments of trade. The only exception seems to be marine exports that are only directed to foreign buyers.

Kerala's international imports were only about Rs. 150 billion, showing a balanced international trade. Like rest of India, machinery and intermediates (like chemicals, wood pulp, base metals) dominate its foreign imports. As with the rest of India, Kerala's major markets abroad lie in the USA, Europe and Middle East while bulk of its imports come from China and South-East Asia.

The analysis above provides a brief overview of Kerala's commodity economy. The service sector in Kerala is much larger share in terms of income and employment. With hotels and shopping malls and teaming bazars provide for bulk of consumer spending and tourist traffic into God's own country. Gold jewellery and trade is the most visible and profitable segment of this tertiary sector. This makes trade and the employment it generates very important part of the economy.

COVID- 19 lockdown has hit this thriving intra-state trade centred around the large urban centres of India's most affluent consumer market. This has hit movement of all commodities; though agriculture produce (vegetables, staples, meat and fish) bounced back since middle of April. The interesting observation during the lockdown is that about two third of goods movement were within Kerala while inter-state transactions showed a sharp decline. As expected, the sharpest decline in economic activity and tax collection came from more prosperous cities/towns like Ernakulam, Thiruvananthapuram Kozhikode, and Alappuzha.

COVID- 19 has adversely hit the economy and employment in Middle East countries like UAE where a large number of non-resident Keralites resides. Many are forced to return to Kerala, which beside adding to the COVID- load, will shrink the remittances for most of remaining months. It is likely to affect overall consumer sentiment and demand. Preliminary

reports indicate that demand for motor vehicles and gold has seen a contraction and turn around seems to be far.

The analysis from GST data provides the government of Kerala with an opportunity to promote industry and industrial estates focussed on commodities that Kerala imports from its neighbours. This could be an opportunity to kick-start modern manufacturing with entrepreneurial talent returning from the Middle East.