INDUSTRIAL DEVELOPMENT IN KERALA : THE ROLE OF RUBBER GOODS MANUFACTURING SECTOR

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Introduction

Inspite of the impressive performance in social indicators of development, the material production sectors in Kerala, particularly, the manufacturing sector, has continued to stagnate since mid 1970s. The dismal performance of the manufacturing sector has to be seen in the context of the revival of industrial growth in the country in the 1980s. Though several factors such as historical, structural and problems in the labour front are identified as major bottlenecks hampering the industrial progress of the state, labour militancy is often projected as the most prominent reason. It is argued that the high degree of labour militancy and trade unionism induce wages to be higher leading to low profitability, resulting in less capital inflow to the industrial sector and further to low capital labour ratio, low productivity and again to low profitability. However, the available statistics show that Kerala has been registering a declining trend in man days lost due to strikes since mid 1980s and now the state figures in the group of states which have recorded the minimum strike proneness. The low productivity and profitability arguments have to be viewed in the backdrop of the specific industrial structure and character of the industrial economy of the state.

Industrial Structure in Kerala

An important characteristic of Kerala's industrial economy is that it has been historically geared to exploit the locally available natural and agricultural resources. The resource based industries constitute more than 60 per cent of the manufacturing sector in terms of value added in the state. The present industrial structure in the state with thrust on the exploitation of traditional agro-based

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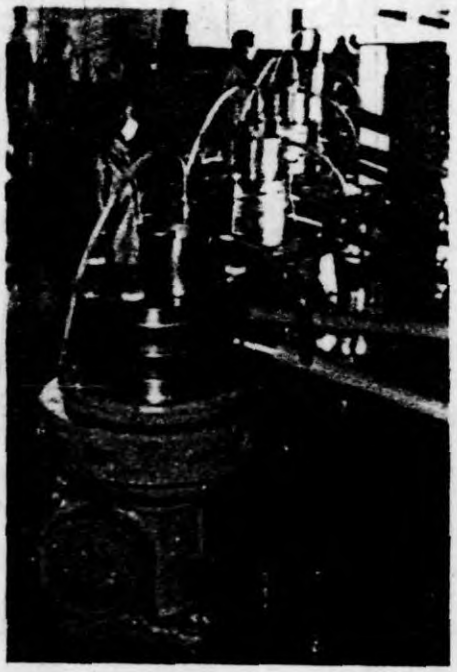
products such as coir and cashewnut has well defined limits for the potential contribution to the sustained industrial growth. Diversification of the industrial base and its transformation to a modern industrial economy is increasingly felt imperative. The exploitation of the locational advantage emerging from the production of natural rubber (NR) is a potential source to widen the base of modern agro-based industries in Kerala.

The industrial economy of Kerala bears certain features besides its backward characteristics. The state is one of the regions in India where the relative contribution of manufacturing sector to state domestic product has either stagnated or marginally decelerated during the last decade. About 50 per cent of the workers employed in the registered manufac-turing sector is distributed over two traditional industries, viz., food processing (cashew) and tobacco manufacturing (beedi). The combined share of these two industrial divisions in total fixed capital employed in the manufacturing sector is only 5 per cent and contribute 11 per cent of the net value added. Contrary to this, chemicals and rubber and petrolem products account for more than 50 per cent of fixed capital employed and net value added. The share of these two industrial groups in employment is rather marginal. This lopsided industrial characteristic presents another important fact that at an aggregate level, labour productivity measured by net value added per worker is found highest in chemical industries followed by rubber goods and petroleum products.



Kerala accounts for 8.32 per cent in the net value

Industrial structure of Rubber Goods Industry in Kerala and India

Industry	Share in fixed capital		Share in net value added		Share in Employment	
	Kerala	India	Kerala	India	Kerala	India
Tyre and Tube	42.08	67.87	73.45	71.49	21.29	42.63
Foot wear	8.58	5.39	6.62	4.92	12.29	11.97
Other rubber products	49.34	26.74	19.93	23.59	66.42	45.40
Total	100.00	100.00	100.00	100.00	100.00	100.00

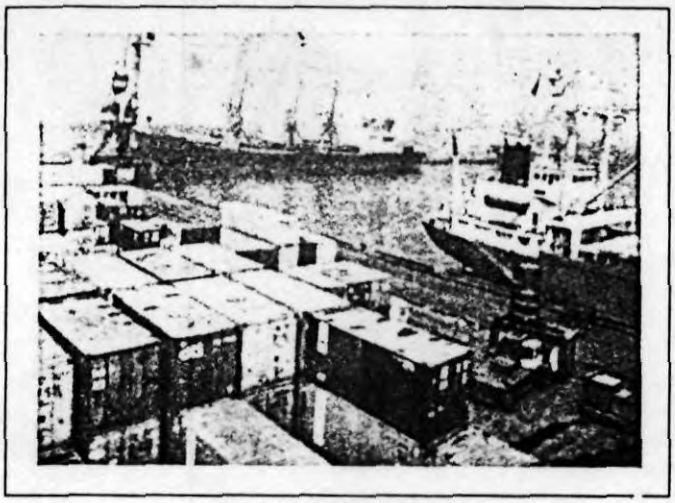
Source: Tharian George K. (2000).

added of the rubber goods industry in India. But the state employs about 12.72 per cent of the total workers with a share of 7 per cent in the fixed capital in the industry. It provides a pointer to the general characteristics of the industry as the manufacturing units in the state are relatively less capital intensive with a higher value addition. However, unlike the general trend observed at the national level, the rubber goods manufacturing in Kerala is not unduly dominated by the automotive tyre and tube sector. As shown in table, the relative share of the dominant tyre and tube sector is significantly lower in Kerala compared to all India pattern except in value added.

During 1994-95, there were 1141 rubber based manufacturing units in the state and 73 per cent of them were manufacturing dry rubber products. Footwear units dominate the dry rubber based sector (48%) followed by tread rubber (34%) and moulded rubber products (6%). The latex based sector is dominated by rubber band units (40%) followed by rubber foam (20%), latex thread (15%) and all kinds of gloves (10%). However, in the case of NR processing units, out of 307 units, 276 are located in Kerala perhaps explain the inherent locational advantage of the industry.

Priorities

The major item of rubber products exported from India is the tyres for truck and bus. However, in the basket of rubber products imported items such as gloves, pharmaceutical articles, eraseres, rubber mats, rubber ring, rubber seal, gaskets, washers, plugs etc are becoming increasingly prominent. Most of these products are labour intensive and value addition per unit of capital employed is on a higher side compared to auto-motive tyres and tubes. The NR contents of these products are higher than other dry rubber products. The experience of other NR producing countries like Malaysia highlight the fact that the country's export earning from rubber products is more than four times higher than India's export earnings despite the fact that Malaysia consumes only 53 per cent of India's total NR consumption. The strategy behind the achievement is the promotion of rubber based industries with higher NR content and maximum locational advantage.



Products ready for exports

RUBBER PRODUCTS EXPORT

India's system needs reorientation

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For increasing export of rubber products, India must have specific export policy restructuring its priorities which is capable of catering to both domestic and export markets

India is the fourth largest producer of natural rubber and eighth among the rubber goods producing countries of the world. The total estimated annual value of the rubber products manufactured in the country is Rs. 6000 crores and in 1992-93 it exported rubber products worth Rs. 6413 million which is only 0.70 per cent of the total world exports.

How can India increase its export of rubber products as there is a big scope for it? A study of the country's foreign trade in rubber products during the period from 1971-72 to 1992-93 shows that India must have a specific export policy restructuring its priorities which is capable of catering to both domestic and export markets.

Though India's share in the world exports of rubber products is insignificant, in the emerging global economic scenario an analysis of its foreign trade in rubber products assumes importance for two reasons. First, the country is the fourth largest producer of natural rubber with the highest reported productivity. Secondly, the existing inward oriented industrial structure has the potential of affecting the viability of rubber products exports in the post - GATT scenario.

Unique advantage

To a certain extent, the composition of India's foreign trade in rubber products is a horizontal extension of its inward oriented rubber goods industry. Among the four major natural rubber (NR) producing countries. India has the unique advantage of a captive market in terms of a larger industrial base and since 1948 it has been a net importer of NR. This is in sharp contrast to the comparative

TABLE - I

Product-wise consumption of rubber (1991-92)

Product Groups	Consumption (MT)	Percentage Share
Automotive tyres and allied products	261724	48.50
Cycle tyres and tubes	81059	15.00
Footwear	67204	12.50
Other dry rubber products	52496	9.70
Sub total	462483	85.70
Latex products	37817	7.00
Others	39515	7.30
Grand total	**539815**	**100.00**

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TABLE 2

Structure of rubber goods industry 1989-90 (Percentage Share)

Industrial Characteristics	Tyre & Tube industry	Others	Total
Fixed capital	75.00	25.00	100.00
Value of output	74.00	26.00	100.00
Net value added	71.00	29.00	100.00
Employment	53.00	47.00	100.00

TABLE 3

Status of rubber products in India's foreign trade

	Percentage Share in Exports	Percentage Share in Imports
1971-72	0.48	0.17
1981-82	0.45	0.16
1992-93	1.20	0.23

shares of internal consumption of NR in other three major NR producing countries viz. Thailand, Indonesia and Malaysia. The share of internal consumption of NR in these countries is marginal and the recent growth in the manufacturing sector is mainly propelled by the efforts to take locational advantage in the manufacturing of NR latex based products.

An important characteristic of the rubber goods manufacturing sector in the country is the dominance of dry rubber products.

Table -1 clearly shows that more than 85 per cent of the rubber consumption in India is for the production of dry rubber products and the relative share of latex products is only 7 per cent. The single largest product group in the industry is the automotive tyre and tube manufacturing sector which is highly capital intensive and the production sector shows features of oligopoly. Table 2 shows the structure of rubber goods industry in India.

Though the production of tyres in India has a wide range from tyres for animal drawn vehicles to aircraft, about 81 per cent of the total production in terms of number is confined to three categories, viz. two and three wheelers (38%). tyres for truck and bus (31 %) and passenger cars (12 %). Similarly, more than 72 per cent of the market for automotive tyres is controlled by six firms, viz, MRF, CEAT, Modi Rubber, J.K. Industries, Apollo and Dunlop. The degree of oligopoly power is higher in the case of cycle tyres and tubes where Govind Rubber Ltd and Dewan Rubber Ltd control about 84 per cent of the market.

Current status

The current status of rubber products in India's foreign trade is not significant as evident from the industry's relative shares in the country's total exports and imports (Table 3).

During the period from 1971-72 to 1992-93, India's foreign trade in rubber products is characterised by a significant increase in the balance of trade in rupee terms as evident from Table 4.

The export and import indices with 1971-72 as the base show that the total value of exports grew faster than imports. In fact, the value of imports of rubber products as a percentage of exports decreased from 40 per cent in 1971-72 to 23 per cent in 1992-93. An important feature of the trade is that the share of primary forms of rubber in the total value of imports of rubber and rubber products taken together has been on the increase during the last two decades while the share of the same in the total value of exports has been marginal. For instance, the share of primary forms of the rubber in the total value of imports was 64.12 per cent compared to its relative share of 2.87 per cent in the total value of exports during the year 1992-93. To a large extent, this trend is indicative of the widening industrial base of the indigenous rubber goods manufacturing sector.

As mentioned earlier, the commodity composition of exports of rubber products from India is closely related to its industrial structure. From an analytical point of view, rubber products traded externally can be broadly classified into three groups, viz: dry rubber products, latex products and intermediate products. The intermediate products are semi-processed dry rubber products but do not possess the status of a final product. The composition of India's foreign trade in rubber products is given in Table 5.

TABLE 4

Foreign trade of rubber products in India (Rs lakh)

Year	Exports	Imports	Balance of Trade	Imports as percentage of exports
1971-72	765	306	459	40.00
1975-76	1117	711	406	61.65
1981-82	3508	2220	1288	63.28
1985-86	8326	4705	3621	56.51
1990-91	24799	10116	14683	40.79
1992-93	64131	14583	49548	23.00

TABLE 5

Foreign trade of rubber products by categories (Percentage Share)

	Exports			Imports		
	Dry Rubber products	Inter-mediate prodicts	Latex products	Dry rubber products	Inter-mediate products	Latex products
1971-72	95.25	4.30	0.45	77.17	18.34	4.49
1975-76	89.96	9.64	0.40	83.78	14.93	1.29
1981-82	90.82	4.06	5.12	63.18	33.51	3.31
1985-86	91.12	8.70	0.18	47.07	47.51	5.42
1990-91	90.45	5.19	4.36	56.84	32.59	10.57
1992-93	90.28	4.37	5.35	65.39	25.15	9.45

Among the major categories of rubber products the share of latex products registered an increase from 0.45 per cent to 5.35 per cent while the share of dry rubber products declined from 95.25 per cent to 90.28 per cent during the 22 year period. At a disaggregated level, the composition of the dominant dry rubber products group indicates that during the period the relative share of tyre and allied products declined from 96.02 to 90.83 whereas the share of belts and beltings has marginally improved. In the case of imports also, the share of dry rubber products declined significantly and that of latex and intermediate products displayed periodic variations. In the composition of dry rubber products imports, the share of tyres and allied products has declined substantially from 72.81 per cent to 26.05 per cent compared to significant increase in all other product groups, especially; rubber ring, rubber seals, blankets and gaskets.

The pattern of exports of rubber products from India is in sharp contrast to Malaysia. For instance, about 78 per cent of Malaysia's export earnings is accounted for by latex products. The existing structure of the industry in the country is mainly an outcome of the efforts to capitalise the comparative advantage in the production of latex products arising from resource endowment.

Another important feature of India's foreign trade in rubber products is a very high degree of concentration in the direction of trade.

It is evident from Table 6 that Developing economies accounted for 70 per cent of India's exports whereas about 80 per cent of the imports is from the developed market economies. During the period the share of developing countries in the exports has declined from 95 per cent in 1971-72 to 70 per cent in 1992-93. At this juncture, it is important to note that changes in the structure of destination of the exports largely depend on the relative share of the dominant tyre and allied products sector.

TABLE 6

Direction of trade (Percentage share)

Year	Exports		Imports	
	Developed Market economies	Developing economies	Developed Market economies	Developing economies
1971-72	5	95	88	12
1981-81	13	87	93	7
1992-93	30	70	80	20

The destination-wise analysis of the exports and imports assumes significance as there exists considerable price differences between the developed market economies and developing economies. For instance, in the case of dominant dry rubber products group, the unit export price realisation is higher from the developing economies whereas the unit import price shows a reverse trend.

Another important conclusion emerging from the analysis is that steady increases in the total volume of exports and unit values of the dominant product groups provide only a magnified picture as evident from the trend in unit values in dollar terms during the 22 year period. In the case of tyres for trucks and buses the export unit value increased from US $ 32.29 in 1971-72 to US $ 105 in 1990-91 and it declined to US $ 85 in 1992-93. However, during the same period, the volume of exports has increased by 78 per cent. The product with the highest unit value. viz; aircraft tyres also recorded a steady decline during the period from 1985-86 to 1992-93. Among the three categories, the latex products group registered maximum increase.

Though at the aggregate level, the foreign trade in rubber products displayed a favourable balance of trade. The structure and pattern of exports and imports call for a reorientation in the context of the emerging scenario in the post-GATT era. The major products group, viz. automotive tyres and allied products will be subjected to stiff competition in the international market arising from technological changes and the resultant cost competitiveness. As more than 98 per cent of India's exports of automotive tyres consists of cross-ply tyres, the chances of maintaining a steady market share in the export market appear to be dim.

From a long-term perspective, it is necessary to restructure the exports giving due emphasis to products having more NR content and inherent locational advantage as in the case of Malaysia. Such a change requires a specific export policy capable of catering to both the domestic and export markets. ❑