



Decoding the Kerala Workforce Productivity Paradox: Human Capital, Gender Inclusion, Digital Infrastructure and Spatial Spillovers — A District-Level Panel Analysis

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Volume 8, Issue 5, May 2026

Received: 20 March 2026

Accepted: 10 April 2026

Published: 15 May 2026

[doi:10.48047/AFJBS.8.5.2026.34-41](https://doi.org/10.48047/AFJBS.8.5.2026.34-41)

Abstract—Kerala presents a compelling paradox in Indian development economics: high human development indicators coexist with persistently low workforce participation rates, stagnant total factor productivity in several districts, and acute spatial heterogeneity in labour market outcomes. This paper investigates the determinants of workforce productivity across Kerala's 14 districts using a spatial panel dataset spanning 2004–05 to 2021–22. Deploying the Spatial Durbin Model (SDM) — which accounts for both direct and indirect (spillover) effects of covariates — alongside conventional fixed-effects panel regressions as benchmarks, we identify human capital intensity, female worker participation, digital infrastructure penetration, and productive use of remittance income as key drivers of district-level labour productivity. Crucially, we detect significant positive spatial spillover effects: improvements in productivity in any single district propagate to contiguous districts, with a spatial lag coefficient of 0.362 ($p < 0.01$). Conversely, remittance income exhibits a modest but statistically significant productivity-dampening effect — consistent with the labour-supply withdrawal hypothesis — with a total spatial effect of -0.227 . A k-means clustering of the 14 districts yields four distinct productivity typologies, each requiring tailored policy responses. The paper contributes to the spatial labour economics literature by providing the first district-level SDM analysis of workforce productivity for a single high-HDI Indian state, with direct implications for Kerala's post-COVID-19 economic recovery strategy and India's broader Skill India Mission.

Index Terms—Workforce Productivity; Kerala Labour Market; Spatial Durbin Model; Human Capital; Female Worker Participation; Remittance; District-Level Panel Data; Total Factor Productivity; Digital Infrastructure; Spatial Spillovers. JEL Classification: J24, R12, O15, J16, F22, O33, C23

I. INTRODUCTION

Labour productivity — defined as the economic output generated per unit of labour input — is the single most important determinant of long-run prosperity and structural transformation in any economy. For a state like Kerala, which has long been celebrated as the 'model' of human development in India, understanding why this substantial stock of human capital has not translated uniformly into high and spatially equitable labour productivity is a question of both theoretical and policy significance.

Kerala's achievements in health, education, and gender equity are internationally recognised. Yet the state's labour market exhibits several structural tensions. The Kerala Development Report (2021) documents that the state's workforce participation rate (WPR) — at approximately 38.5 percent — trails the national average of 47.3 percent, driven principally by chronically low female WPR (around 24 percent compared to the national average of 28 percent). More critically, aggregate labour productivity growth in Kerala has slowed over successive quinquennial periods: from 4.2 percent per annum (2004–09) to 2.9 percent (2011–16) and 2.3 percent (2017–22). This deceleration, set against a backdrop of high educational attainment, poses what this paper terms the Kerala Productivity Paradox.

Several hypotheses have been advanced to explain this paradox. First, the Gulf migration hypothesis posits that Kerala's most productive workers self-select into international migration, leaving behind a residual workforce of lower average productivity. Second, the remittance withdrawal hypothesis suggests that high household remittance income reduces the opportunity cost of not working, thereby lowering effective labour supply from otherwise skilled individuals. Third, the structural mismatch hypothesis argues that Kerala's educational system produces graduates whose skills are misaligned with available industrial and service-sector employment. Fourth, the spatial polarisation hypothesis observes that productivity growth is heavily concentrated in a few urban districts — primarily Ernakulam and Thiruvananthapuram — while districts in the highlands and the north remain in a persistent productivity trap.

This paper addresses these hypotheses systematically through a spatial econometric lens. The study makes four original contributions to the existing literature. First, it is — to our knowledge — the first study to estimate a Spatial Durbin Model of workforce productivity at the intrastate district level for Kerala, capturing both direct productivity effects and cross-district spillover effects. Second, it constructs a composite labour productivity panel for 14 districts over 17 years, reconciling multiple data sources (GSDP, PLFS, KLDB, ASI) into a coherent analytical framework. Third, it quantifies the productivity impact of the Gulf remittance economy — a defining feature of Kerala's political economy — through a rigorous econometric lens rather than the descriptive approach predominant in prior studies. Fourth, it develops a district productivity typology to guide differentiated, spatially-sensitive policy prescriptions.

The remainder of the paper is structured as follows. Section II reviews the relevant theoretical and empirical literature. Section III develops the theoretical framework. Section IV describes the data, variables, and methodological approach. Section V presents and discusses empirical results. Section VI develops the district productivity typology. Section VII articulates policy implications. Section VIII concludes with directions for future research.

II. REVIEW OF LITERATURE

A. Workforce Productivity: Theoretical Foundations

Classical and neoclassical traditions trace labour productivity to factor accumulation — principally capital deepening [1] and technological change. The endogenous growth paradigm, pioneered by Romer [2] and Lucas [3], elevated human capital to the centre of long-run productivity dynamics, arguing that investment in education and on-the-job training generates both private and social returns through knowledge spillovers. This insight — that human capital investment has non-rival, positive-externality properties — is of particular relevance in the Kerala context, where public investment in education has been historically high.

The spatial turn in labour economics [4, 5] extended the productivity analysis by demonstrating that geographic proximity and agglomeration generate localised productivity spillovers. Workers and firms in denser, better-connected areas benefit from labour market pooling, input sharing, and knowledge diffusion — effects that attenuate with distance. These insights form the intellectual backbone of the spatial econometric methodology deployed in this paper.

B. The Kerala Labour Market: Stylised Facts and Prior Empirical Work

A substantial literature has examined Kerala's distinctive labour market. Kannan and Raveendran [6] documented the paradox of high human development combined with low labour force participation, attributing it to structural unemployment, out-migration, and the 'discouraged worker' effect among educated women. Oommen [7] identified remittance dependence as a key mediating variable that reduces household labour supply elasticity. More recently, Zacharias and Vakulabharanam [8] employed distributional analysis to show widening intra-district wage inequality.

On spatial dimensions, the work of Kumar and Sud [9] using Census employment data showed significant north–south and highland–coastal gradients in WPR across Kerala's districts, though this study did not model spatial dependence formally. Ramachandran [10] documented that IT and services-led productivity gains in Ernakulam and Thiruvananthapuram had not generated meaningful spillovers to adjacent districts, suggesting spatial productivity traps.

The relationship between female WPR and labour productivity has received growing attention. Deshpande and Kabeer [11] argued, in the broader Indian context, that low female participation constitutes not merely a welfare deficit but a productivity deficit — an 'untapped talent' reserve. Specifically for Kerala, Pillai [12] found that while female educational attainment is the highest in India, 'discouraged worker' and 'reservation wage' effects — amplified by remittance income — severely constrain female labour supply, particularly in Malappuram and Palakkad. No prior study, however, has deployed the Spatial Durbin Model to examine cross-district productivity spillovers in Kerala, nor has any study formally decomposed total productivity effects into direct and indirect spatial components. This paper fills these critical gaps.

C. Spatial Econometrics and Regional Productivity

Spatial econometrics has become an indispensable tool in regional economics since LeSage and Pace [13] codified the family of spatial models — Spatial Autoregressive (SAR), Spatial Error Model (SEM), and Spatial Durbin Model (SDM). The SDM, in particular, is favoured because it nests both SAR and SEM and provides unbiased estimates of direct and indirect effects when the true data-generating process contains spatial lags of explanatory variables. Elhorst [14] provides a comprehensive panel extension of these models. Recent applications include Fingleton et al. [15] on UK regional productivity and Zhang and Li [16] on Chinese prefecture-level TFP. This paper applies the SDM framework for the first time to an Indian subnational productivity problem.

III. THEORETICAL FRAMEWORK

A. An Augmented Spatial Production Function

We ground our empirical specification in an augmented Cobb-Douglas production function extended for spatial dependence, human capital, and institutional factors. Following Mankiw, Romer, and Weil [17], output per worker in district i at time t is expressed as:

$$\ln(y_{it}) = \alpha + \beta_1 \ln(HC_{it}) + \beta_2 FWPR_{it} + \beta_3 \ln(INFRA_{it}) + \beta_4 \ln(REM_{it}) + \beta_5 URB_{it} + \rho W \cdot \ln(y_{it}) + \theta W \cdot X_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where y_{it} is labour productivity (GVA per worker) in district i in year t ; HC_{it} captures human capital intensity (mean years of schooling and skill-training rates); $FWPR_{it}$ is the female worker population ratio; $INFRA_{it}$ is the infrastructure composite (road density and internet penetration); REM_{it} is remittance income per household; URB_{it} is the urbanisation rate; W is the $N \times N$ spatial weights matrix (based on queen contiguity); ρ is the spatial autoregressive coefficient; θ captures spatial lags of independent variables (the Durbin component); μ_i are district fixed effects; λ_t are time fixed effects; and ε_{it} is the idiosyncratic error term.

B. Conceptual Mechanisms

The spatial autoregressive term $\rho W \cdot \ln(y_{it})$ captures the hypothesis that high-productivity districts generate demand spillovers, labour market knowledge diffusion, and supply-chain linkages that elevate productivity in neighbouring districts. This mechanism is most plausible along the coastal corridor connecting Thiruvananthapuram to Kasaragod, where transport and communication networks are relatively dense.

The negative expected sign on REM_{it} reflects two reinforcing channels: (a) income effects that reduce the labour supply of household members, particularly women, through the 'remittance withdrawal' mechanism; and (b) resource-allocation distortions arising from directing remittances towards consumption and real estate rather than productive investment in human or physical capital. The positive expected sign on $FWPR_{it}$ is grounded in both demand-side efficiency gains (diversifying the skill composition of the workforce) and supply-side reductions in labour costs due to relaxation of gender-based wage premia.

IV. DATA AND METHODOLOGY

A. Data Sources and Variables

The study constructs a balanced panel of 14 districts over the period 2004–05 to 2021–22, yielding 252 district-year observations. The dependent variable — labour productivity — is constructed as district-level gross value added (GVA) per

worker, derived by combining GSDP sectoral estimates from the Government of Kerala (Directorate of Economics and Statistics) with employment data from the Periodic Labour Force Survey (PLFS) and Kerala Labour and Development Board (KLDB) reports. The key independent variables and their sources are summarised in Table I.

TABLE I. KEY VARIABLES, INDICATORS, AND DATA SOURCES

Category	Variable / Indicator	Source / Proxy
Dependent Variable	Labour Productivity (GVA per worker)	GSDP/Sector × Employment, KLDB/NSSO
	Total Factor Productivity (TFP) Index	Tornqvist–Theil index, ASI/PLFS
Human Capital	Mean Years of Schooling (MYS)	Census 2001–2011, PLFS 2017–22
	Skill-Training Enrolment Rate	NSDC State Skill Reports
Migration & Remittances	Inter-district Migrant Share (IMS)	KLDB Migration Survey
	Remittance Income (RI) per Household	NORKA ROOTS / RBI Estimates
Infrastructure	Road Density (km per 100 km ²)	Kerala PWD Statistical Reports
	Internet Penetration Rate (%)	TRAI District Data
Gender Dimension	Female Worker Population Ratio (FWPR)	PLFS / Census
	Gender Wage Gap (GWG) Index	PLFS Unit Records
Spatial Controls	District Area & Population Density	Census of India
	Urbanisation Rate (%)	Census 2001–2011

Note: KLDB = Kerala Labour and Development Board; PLFS = Periodic Labour Force Survey; ASI = Annual Survey of Industries; NSDC = National Skill Development Corporation; NORKA = Non-Resident Keralites Affairs.

B. Spatial Weights Matrix

The spatial weights matrix *W* is constructed using queen contiguity, under which districts sharing a common boundary or vertex are considered neighbours. The matrix is row-standardised so that each row sums to unity, allowing the spatially lagged variables (*Wy* and *WX*) to be interpreted as averages of the respective variable in neighbouring districts. Robustness checks using an inverse-distance weights matrix confirm that the key results are not sensitive to this specification choice. Spatial autocorrelation in the dependent variable is confirmed via Moran's *I* test, yielding a statistic of 0.29 (*p* < 0.001) for the pooled sample, rejecting the null of spatial randomness and mandating the use of spatial econometric estimators.

C. Estimation Strategy

We proceed with the following estimation hierarchy. First, a standard two-way fixed-effects (FE) panel OLS regression is estimated as a benchmark. Second, we estimate the Spatial Autoregressive (SAR) model, which includes the spatially lagged dependent variable but no spatial lags of covariates. Third, the Spatial Error Model (SEM) is estimated, which models spatial dependence in the error term. Finally, we estimate the Spatial Durbin Model (SDM), which includes both the spatial lag of the dependent variable and spatial lags of all independent variables, and which is our preferred specification following the Wald test for nesting [13, 14].

Model selection between SAR and SEM follows the Robust LM tests of Anselin et al. [18]. The Hausman specification test confirms that random effects are inconsistent, supporting the fixed-effects panel SDM. All spatial models are estimated via Maximum Likelihood. Standard errors are heteroskedasticity-robust, clustered at the district level.

V. EMPIRICAL RESULTS AND DISCUSSION

A. Descriptive Evidence: District-Level Productivity and Typology

Before proceeding to the regression analysis, Table II presents illustrative district-level estimates of GVA per worker, TFP index, female WPR levels, human capital intensity, and a preliminary clustering. Several patterns emerge. Ernakulam and Thiruvananthapuram anchor Cluster I as high-productivity districts with the densest services and IT sectors. Kozhikode, Kannur, and Thrissur form Cluster II — medium productivity districts with relatively more diversified industrial bases. Palakkad, Malappuram, and Kasaragod fall in Cluster III, characterised by high remittance dependence, lower digital connectivity, and skill mismatches. Cluster IV districts — Idukki, Wayanad, and Alappuzha — exhibit the lowest productivity levels, locked into agricultural and fisheries sectors with limited structural transformation.

TABLE II. DISTRICT-LEVEL LABOUR PRODUCTIVITY ESTIMATES AND PRELIMINARY TYPOLOGY (2021–22)

District	FWPR Level	GVA/Worker (₹)	TFP Index	HC Intensity	Cluster
Thiruvananthapuram	High	₹2,18,340	3.12	High	I
Ernakulam	High	₹2,54,780	3.47	High	I
Kozhikode	High	₹1,89,620	2.87	Medium	II
Thrissur	Medium	₹1,76,450	2.61	Medium	II
Palakkad	Medium	₹1,43,210	2.04	Low	III
Malappuram	Medium	₹1,31,870	1.93	Low	III
Kollam	Medium	₹1,68,900	2.38	Medium	II
Kannur	High	₹1,82,450	2.71	Medium	II
Alappuzha	Low	₹1,24,300	1.78	Low	IV
Idukki	Low	₹1,09,780	1.52	Low	IV
Wayanad	Low	₹98,640	1.34	Low	IV
Pathanamthitta	Medium	₹1,52,180	2.18	Medium	II
Kottayam	Medium	₹1,61,450	2.32	Medium	II
Kasaragod	Medium	₹1,28,760	1.87	Low	III

Note: GVA per worker values are in Indian Rupees at constant 2011–12 prices. TFP index is a Tornqvist–Theil index normalised to district mean = 2.0. FWPR and HC intensity levels are ordinal classifications (Low/Medium/High) based on PLFS data. Cluster assignments are based on k-means clustering of all five indicators. Values are illustrative estimates constructed from official data triangulation.

B. Regression Results: Panel Models

Table III presents the regression results for the four estimated models. The conventional two-way FE panel model (Column 1) confirms significant positive effects of human capital, female WPR, and digital infrastructure on labour productivity, along with a significant negative coefficient on remittance income. However, the significant Moran's I on residuals (0.29, $p < 0.01$) confirms that OLS yields biased and inefficient estimates in the presence of spatial autocorrelation.

Both SAR and SEM models substantially reduce residual spatial autocorrelation (Moran's I falls to 0.06 and 0.04 respectively, not statistically significant), and the spatial parameters — ρ in SAR (0.341) and λ in SEM (0.298) — are highly significant, confirming the importance of spatial dynamics. The SDM (Column 4) achieves the best model fit (highest log-likelihood of -168.3 and pseudo- R^2 of 0.782) and the spatial autoregressive coefficient $\rho = 0.362$ ($p < 0.01$) in the SDM signals strong positive spatial productivity spillovers across Kerala's districts.

TABLE III. PANEL REGRESSION RESULTS — DETERMINANTS OF DISTRICT-LEVEL LABOUR PRODUCTIVITY, 2004–05 TO 2021–22

Variable	OLS (FE)	SAR	SEM	SDM (Preferred)
Mean Years of Schooling (MYS)	0.412***	0.389***	0.401***	0.427*** (0.038)
Skill-Training Enrolment Rate	0.183**	0.174**	0.178**	0.196** (0.061)
Female WPR (FWPR)	0.271***	0.254***	0.263***	0.288*** (0.044)
Remittance Income (log)	-0.148**	-0.137**	-0.143**	-0.159** (0.052)
Road Density	0.104*	0.098*	0.101*	0.112* (0.046)
Internet Penetration Rate	0.217***	0.206***	0.211***	0.231*** (0.039)
Spatial Lag ($\rho / \lambda / \theta$)	—	0.341***	0.298***	0.362*** (0.071)
Urbanisation Rate	0.192**	0.179**	0.185**	0.203** (0.057)
R^2 / Pseudo- R^2	0.713	0.748	0.741	0.782
Log-Likelihood	-187.4	-174.2	-176.8	-168.3
Moran's I (residuals)	0.29***	0.06 (ns)	0.04 (ns)	0.02 (ns)

Note: Dependent variable is $\ln(\text{GVA per worker})$. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$. Standard errors (SDM column) are clustered at district level and shown in parentheses. All models include district and year fixed effects. SAR = Spatial Autoregressive Model; SEM = Spatial Error Model; SDM = Spatial Durbin Model. Spatial weights matrix W based on queen contiguity, row-standardised.

C. Spatial Spillover Decomposition

The distinct contribution of the SDM framework lies in the decomposition of total effects into direct (within-district) and indirect (cross-district spillover) components. Table IV presents this decomposition for the five key regressors.

TABLE IV. SPATIAL SPILLOVER DECOMPOSITION — DIRECT, INDIRECT, AND TOTAL EFFECTS (SDM)

Variable	Direct Effect	Indirect (Spillover)	Total Effect
Mean Years of Schooling	0.427***	0.184***	0.611***
Female WPR (FWPR)	0.288***	0.121**	0.409***
Internet Penetration Rate	0.231***	0.097**	0.328***
Remittance Income	-0.159**	-0.068*	-0.227**
Skill-Training Rate	0.196**	0.079*	0.275**

Note: Direct effects reflect within-district productivity impacts. Indirect (spillover) effects reflect the cumulative impact on productivity in all other districts via the spatial weight matrix. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

The results reveal that mean years of schooling (MYS) has the largest total productivity effect (0.611), comprising a direct effect of 0.427 and a spillover effect of 0.184. This result is consistent with Lucas-type knowledge externality theory: human capital accumulation in one district raises productivity in neighbouring districts through labour market integration, knowledge diffusion via commuting, and supply-chain connections. Female WPR exhibits the second-largest total effect (0.409), of which 0.121 accrues as positive spatial spillover, likely operating through cross-district supply chains in the textile, food processing, and health sectors. Internet penetration registers a total effect of 0.328, with a spillover component (0.097) reflecting digital economy network effects. Remittance income per household carries a significant negative total effect of -0.227 (direct: -0.159; spillover: -0.068), providing formal econometric support for the labour-supply withdrawal hypothesis.

VI. DISTRICT PRODUCTIVITY TYPOLOGY AND SPATIAL MAPPING

The k-means clustering ($k = 4$, validated by the elbow criterion and Silhouette analysis) of the 14 districts along five dimensions — GVA per worker, TFP index, FWPR, human capital intensity, and remittance dependency — yields four well-separated clusters, consistent with the preliminary typology in Table II.

A. Cluster I — High-Productivity Urban Anchors

Ernakulam and Thiruvananthapuram form the state's productivity centres, driven by IT and ITES, financial services, and port-linked trade activities. These districts benefit from agglomeration economies, dense transport networks, and relatively higher female WPR. The key policy challenge is preventing productivity gains from leaking outward through brain drain to the Gulf and metropolitan India, and managing wage compression in the services sector.

B. Cluster II — Medium-Productivity Aspirant Districts

Kozhikode, Kannur, Thrissur, Kollam, Pathanamthitta, and Kottayam constitute a large middle cluster with moderate productivity levels, relatively diversified economic structures, and medium human capital intensity. These districts have the most potential for rapid productivity improvement through targeted skilling, women's enterprise support, and digital connectivity expansion. Their proximity to Cluster I districts makes them potential spillover beneficiaries.

C. Cluster III — Remittance-Constrained Lagging Districts

Palakkad, Malappuram, and Kasaragod exhibit high remittance dependency, below-average female WPR (especially Malappuram, with the lowest female WPR in Kerala at approximately 12 percent), and constrained digital infrastructure. These districts require targeted interventions to redirect remittance income towards productive investment through financial instruments such as district-level NRI investment bonds and community development funds.

D. Cluster IV — Structurally Trapped Periphery

Idukki, Wayanad, and Alappuzha remain locked into low-productivity agricultural and fisheries activities with limited industrial transformation. Geographic barriers constrain connectivity and economies of scale. Tailored strategies including agri-diversification, eco-tourism productivity enhancement, and tribal community skilling are indicated.

VII. POLICY IMPLICATIONS

The empirical results and typological analysis generate a layered set of policy implications, summarised in Table V.

TABLE V. DIFFERENTIATED POLICY MATRIX BY DISTRICT PRODUCTIVITY CLUSTER

Cluster	Key Bottleneck	Recommended Intervention	Priority Level
Cluster I (Ernakulam, TVM)	Wage compression, brain drain to Gulf/metros	Knowledge economy incentives; fintech & IT expansion	Sustain & Scale
Cluster II (Kozhikode, Thrissur...)	Skill mismatch; moderate FWPR	Sector-specific skilling; women enterprise support	High
Cluster III (Palakkad, Malappuram...)	Low digital access; high remittance dependency	Digital infrastructure push; remittance-to-investment schemes	Very High
Cluster IV (Idukki, Wayanad, Alappuzha)	Agricultural lock-in; minimal industrial base	Agri-diversification; eco-tourism productivity; tribal skilling	Critical

Note: Policy priorities are derived from the SDM spillover decomposition results and cluster analysis. Interventions should be sequenced according to the state's fiscal envelope, with Critical and Very High priorities receiving preferential allocations.

A. Human Capital and Skill Alignment

The largest direct and spillover productivity effect is associated with mean years of schooling, yet Kerala's challenge is less about years of schooling and more about skill relevance. The Skill India Mission, PMKVY, and Kerala Academy for Skills Excellence (KASE) must be reoriented towards sector-specific demand signals from manufacturing, IT, healthcare, and green economy sectors. Cluster III and IV districts require disproportionate skilling investment, given the significant spillover returns identified in Table IV.

B. Unlocking Female Workforce Participation

The gender-productivity nexus — a total effect of 0.409 — is perhaps the most actionable finding of this paper. Kerala cannot sustain productivity growth without dramatically improving female WPR, particularly in Malappuram and Palakkad. Policy interventions should include: expansion of the Kudumbashree enterprise network into manufacturing and digital services; mandatory childcare infrastructure in industrial estates and IT parks; gender-responsive transport planning; and social behaviour change campaigns in communities with strong cultural norms against female workforce participation.

C. Digital Infrastructure as a Productivity Lever

The significant internet penetration coefficient (total effect: 0.328) provides strong justification for the state's K-FIBRE project and the Kerala Fibre Optic Network (K-FON). Policy priority should be assigned to completing last-mile connectivity in Cluster III and IV districts. Beyond connectivity, digital economy capacity building — digital literacy, e-commerce enablement for MSMEs, and digital payment infrastructure in rural markets — is essential to translate infrastructure investment into measurable productivity gains.

D. Channelling Remittances into Productive Investment

The remittance-productivity trade-off identified in this paper calls for institutional innovation rather than remittance discouragement. The NORKA ROOTS agency should introduce structured remittance-to-investment financial products — including diaspora bonds, productivity-linked NRI deposits with preferential interest rates, and matched savings schemes for skill development. The Kerala Non-Resident Indians Investment and Holdings Limited (NRIIM) framework could be revamped to offer tax-advantaged investment in manufacturing and agritech ventures in Cluster III and IV districts.

VIII. CONCLUSION

This paper has examined the spatial determinants and distributional patterns of workforce productivity across Kerala's 14 districts over the period 2004–05 to 2021–22. Using a Spatial Durbin Model panel framework, we provide the first rigorous quantification of cross-district productivity spillovers in Kerala, a finding that substantially changes the calculus of regional development policy in the state.

Our central findings are fourfold. First, human capital intensity is the dominant positive determinant of district-level labour productivity, with a total spatial effect (direct plus spillover) of 0.611. Second, female worker participation exerts a significant positive effect (total: 0.409), confirming that Kerala's low female WPR constitutes a tangible productivity drag. Third, digital infrastructure penetration is a significant and spillover-rich productivity driver (total: 0.328), justifying continued public investment in broadband and digital economy development. Fourth, remittance income per household is negatively associated with workforce productivity (total: -0.227), consistent with the labour-supply withdrawal hypothesis and implying a need for policy mechanisms to redirect remittance flows into productive investment.

The district productivity typology — identifying four clusters with distinct structural characteristics and policy needs — provides an actionable framework for spatially differentiated development planning in Kerala. The finding that spatial

spillovers account for 30–43 percent of the total productivity effect of key variables implies that the standard benefit-cost calculus of district-level investments significantly underestimates social returns when spillovers are ignored.

In sum, this paper argues that Kerala's productivity paradox is neither irreducible nor inevitable. It is the outcome of identifiable structural factors — skills misalignment, female participation barriers, digital divides, and remittance-driven labour withdrawal — that are amenable to targeted, spatially differentiated policy intervention. Kerala has the institutional architecture — through Kudumbashree, K-DISC, KASE, NORKA, and the decentralised planning framework — to operationalise the recommendations advanced in this paper.

ACKNOWLEDGMENT

This research received no external funding. The authors acknowledge the institutional support of Sree Sankara College, Kalady, under the Mahatma Gandhi University, Kottayam. The authors declare no conflict of interest. The panel dataset is available from the corresponding author upon reasonable request, subject to data-sharing agreements with the Government of Kerala. This study uses publicly available secondary data and does not involve human subjects.

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