Unleashing India's manufacturing growth potential with the Production Linked Incentive Schemes

By
Debashis Acharya, School of Economics, University of Hyderabad, Hyderabad, India

1.Introduction

The budget speech delivered by the Hon'ble Finance Minister of India Mrs Nirmala Sitharaman on February 01, 2021, read the following with respect to India's goal towards a self-reliant India, under the flagship *AtmaNirbhar Bharat Abhiyan* of the Govt. of India.

"For a USD 5 trillion economy, our manufacturing sector has to grow in double digits on a sustained basis. Our manufacturing companies need to become an integral part of global supply chains, possess core competence and cutting-edge technology. To achieve all of the above, Production Linked Incentive (PLI) schemes to create manufacturing global champions for an AtmaNirbhar Bharat have been announced for 13 sectors. For this, the government has committed nearly ₹1.97lakh crores, over 5 years starting FY 2021-22. This initiative will help bring scale and size in key sectors, create and nurture global champions and provide jobs to our youth."

The self-reliance goal of India is not a self-centred one. Hon'ble PM of India Sri Narendra Modi strongly believes, "in India's march towards self-reliance, there is a concern for the whole world's happiness, cooperation and peace" [1]. Though Govt. of India announced its National Manufacturing Policy in 2011 followed by its *Make in India* initiative in 2014 the PLI schemes announced in March 2020 are perceived to boost India's manufacturing growth in a big way. The focus has shifted from the service led growth story to manufacturing in India. The PLI schemes are centrally administered through different ministries of the Govt. of India. The key feature of the scheme is a recurring cash subsidy offered to the investors which is computed as a fixed percentage of the sales turnover for a specific duration. The scheme goes through four major steps.

[1] Aatmanirbharbharat (mygov.in)

First, investors apply online with their proposals. In the second stage the govt. appointed agency evaluates the proposals. Following this evaluation investors are selected for the incentive grant. Finally, incentives are disbursed subject to fulfilling commitments made by the investors in the application.

2. PLI schemes: Genesis and Progress

India's growth story has always attracted global attention and especially after the 1990's economic reforms. A recent study by Soni and Subrahmanya(2020) analyse India's sectoral growth patterns and the US$5 trillion trajectory amidst the ongoing COVID-19 pandemic. The study points to an ever-increasing share of services in India's GDP and its by-passing industrialization before turning to a service economy. For instance, during 1983-84 to 2004-05 the manufacturing sector's value added as a percentage of GDP was between 14-17%. During the same period the value added by services as percentage of GDP increased from 42% to 58% whereas that of agriculture declined from 38 to 20%. Some studies have attributed the service sector growth to domestic demand, exports, and reforms including opening of the sector to private sector and FDI. But the share of manufacturing in employment was the lowest during the same period (see Kotwal et al , 2011). Considering data in the recent years one finds that annual growth rates of real gross value added at basic prices of manufacturing including construction, electricity etc. declined from 9.5 in 2015-16 to 6.0 in 2018-19. In the pandemic years the growth declined further to -9.3[2]. In fact, the National Manufacturing Policy, 2011 aimed at increasing the manufacturing share in GDP to 25% and creation of 100 million new jobs. The PLI scheme launched in 2020 is supposed to further this ambition by strengthening manufacturing in India. The economic survey, 2020-21 says, " The Atmanirbhar Bharat has brought manufacturing at centre stage and emphasized its significance in driving India's growth and creating jobs. A strong, vigorous and dynamic manufacturing sector will be a driver of growth. Countries across the world, which have transitioned from low to high

[2] Economic survey 2020-21, Govt. of India.

per capita income, have heavily relied on manufacturing and export led growth. This points to the need for a well-planned strategy to attract investment, ensure efficiency and economies of scale, and make Indian manufacturing companies globally competitive". The PLI scheme was thus introduced in 10 key sectors under AtmaNirbhar Bharat with an estimated expenditure of ₹1.46lakh crores with sector specific financial limits. The scheme is also expected to create backward linkages with the Micro, small, and medium enterprises (MSME) and result in more inclusive growth and employment.

In March 2020 the PLI for Large Scale Electronics Manufacturing was approved and announced. The scheme proposed production linked incentive to boost domestic manufacturing and attract large investments in mobile phone manufacturing and specified electronic components including Assembly, Testing, Marking and Packaging (ATMP) units. An incentive of 4% to 6% was proposed to be extended on incremental sales (over base year) of goods manufactured in India and covered under target segments, to eligible companies, for a period of five (5) years subsequent to the base year as defined. The scheme is expected to benefit 5-6 major global players and few domestic champions, in the field of mobile manufacturing and Specified Electronics Components and bring in large scale electronics manufacturing in India. At a total cost of ₹ 40,995 crore this scheme has potential to create 2,00,000 jobs over five years. Putting together direct and indirect employment the scheme has the potential to create a total of 8,00,000 jobs. The existing strong domestic demand in this sector will help transform the state of "Assemble in India for the world" to " Make in India" as envisaged under AtmaNirbhar Bharat. Subsequently, in November 2020, the PLIs were announced for ten key sectors given in the table below. The expenditure is approved for a period of five years.

Table1: Sectors in PLI with estimated expenditure

Sector in PLI	Estimated expenditure(₹Crores)
Advance Cell Chemistry Battery	18,100
Electronic/Technology Products	5,000
Automobiles & Auto Components	57,042
Pharmaceuticals Drugs	15,000
Telecom & Networking Products	12,195
Textile Products	10,683
Food Products	10,900
High Efficiency Solar PV Modules	4,500
White Goods (ACs & LED)	6,238
Specialty Steel	6,322
Total	1,45,980

Source: Press information Bureau, Nov 11, 2020 and Economic Survey, 2020-21, and Union Budget 2021-22.

In all the sectors outlined above, barring sector specific expectations, the PLI is expected to attract fresh investments, make the sector more competitive, encourage high value production by both domestic and global players, enhance globalization of the sector, increase employment and exports. The following table summarizes the salient features of the major PLIs announced during February 2021 to October 2021.

Table-2: Salient features of the PLIs

Sector	Estimated expenditure/incentives (in ₹ *crore)*	Employment potential	Duration in years	Production and Exports (in ₹ *crore)*	Additional investments expected(in ₹ *crore)*	Direct+indirect revenue expected (in ₹ *crore)*
IT Hardware including Laptops, Tablets, PCs etc.	7,350	1.80 lakh	04	3.26 lakh+2.45 lakh	2700	15,760
White goods(ACs	6238	04 lakh	05	1.68 lakh + 64,400	7920	49,300

and LED lights)						
Specialty steel	6322	5.25 lakh	05	2.5 lakh+33,000	40,000	--
Textiles	10,683	7.5lakh+	05	3lakh	19,000	--
Telecom and Networking Products	12,195	40,000	05	1.82 lakh	3345	--

Apart from the multiplier effects expected in terms of job creating potential, additional investment and exports etc. each sector receiving the PLI has got a distinct characteristic in terms of its contribution to India's manufacturing growth trajectory over the next five years or so. The telecom and networking products sector will benefit 16 MSMEs and 15 non MSMEs. The department of Telecommunications (DoT) will implement the scheme by incentivising incremental investments and taking the vision of *Digital India* forward. The Textile sector PLI has an innovative approach in prioritising aspirational districts and tier3/4 towns, and rural areas. This will move investment in textiles towards backward areas. This scheme is likely to benefit a few states and women since textiles mainly employs women. Now, with PLI women will be part of the formal economy and empowered in the process. The case of Speciality steel is different. In this segment, out of the production of 102 million tonnes in 2020-21, only 18 million tonnes were value added steel/speciality steel. Similarly, out of 6.7 million tonnes of imports in 2020-21, approx. 4 million tonnes import was of specialty steel alone. Now with PLI in this sector India will save approx. Rs. 30,000 crores of FOREX. Being Aatmanirbhar in producing speciality steel, India will also move up the steel value chain and compete with Korea and Japan. The pharmaceutical sector will also reach its potential with PLIs given to bulk drugs, ingredients, and medical devices.

3. Expectations and Challenges

The schemes are expected to be implemented well since relevant ministries are tasked with rolling out the approved schemes to achieve the objectives set in terms of parameters outlined in table-2. The very fact that this big push to manufacturing in India came amidst the pandemic has sent a message to the rest of the world on India's commitment in growing along with the world. The targeted approach in different sectors with commitment from investors will also unleash the growth potential. In this pandemic time, post the second wave PLIs will also boost animal spirits and investor confidence. India will also move towards job *plus* growth from the critiqued job less growth of past times. The weakened consumer confidence will also be revived in near future.

As regards the global interest in investing in India, with the current political stability and policy certainty PLIs will certainly attract global investors given the ease of doing business in India at present. But the challenge lies in competing with countries like China, Vietnam, Korea, Singapore, and Thiland for example in terms of infrastructure and established supply chain with differences in different sectors. The debate in the public domain goes from World's China plus strategy to China perceiving India's PLI as a threat. But a lot depends on how well India implements the schemes and disburses incentives to make the laggard manufacturing move fast. We may have to wait and assess as more data come in future.

References:

Economic Survey, Govt. of India, 2020-21

Union Budget, 2021-22, indiabudget.gov.in

India Tax Insights, EY India, 20, Jan 2021.

India Tax Insights, EY India, 21, May 2021.

Kotwal Ashok, Bharat Ramaswami and Wilima Wadhwa, "Economic Liberalization and Indian Economic Growth: What's the Evidence? Journal of Economic Literature, Vol. 49, No. 4 (DECEMBER 2011), pp. 1152-1199

Manufacturing Growth - Reports - World Economic Forum (weforum.org)

Press information Bureau, www.pib.gov.in

Production-linked incentive: What is Modi govt's pet PLI scheme, who is eligible, which sectors have it? - The Financial Express

Soni Swapnil and M H Balasubrahmanya(2020), "India's Sectoral Growth Patterns and US$ 5 Trillion Trajectory: An Empirical Investigation on Macroeconomic Impact of COVID-19", The Indian Economic Journal, 68(3) 309–322, 2020. Sage.