Products Linked Incentive (PLI) Scheme: A Blueprint for India's New Global Manufacturing Order

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Abstract

The "Production Linked Incentive (PLI) Scheme: A Blueprint for India's New Global Manufacturing Order" outlines the transformative impact of India's Production-Linked Incentive (PLI) scheme on the country's manufacturing landscape and global economic dynamics. The paper contextualizes the scheme within the backdrop of a post-pandemic world, where disruptions to global supply chains highlighted the importance of domestic production capabilities. It delves into the challenges that India's manufacturing sector faced, including infrastructure limitations and heavy reliance on imports, primarily from China.

The PLI scheme's inception in 2020 aimed to bolster domestic manufacturing, attract foreign investment, and enhance self-reliance across crucial sectors. The impact of the PLI scheme on India's economy, citing significant investments, and increased exports in sectors like electronics, pharmaceuticals, etc.

Currently, the Railway Ministry's plans to introduce PLI schemes for train parts and explores the potential of the PLI initiatives to spark a manufacturing renaissance in India.

In conclusion, the article asserts that India's PLI scheme has the potential to redefine global manufacturing dynamics, presenting India as a manufacturing powerhouse and facilitating economic partnerships. It underscores the scheme's alignment with India's vision of self-reliance and its capacity to revolutionize the global economic system, and analysing to gauge its lasting impact.

Reference to this paper should be made as follows:

Received: 14.08.2023
Approved: 28.09.2023

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Article No.45
RJPSS Apr.-Sep. 2023,
Vol. XLVIII No. 2,
pp. 370-374

Online available at:
https://anubooks.com/view?file=3288&session_id=rjpss-2023-vol-xlviii-no2-sept-2023

DOI: https://doi.org/10.31995/rjpss.2023.v48i02.045

https://doi.org/10.31995/rjpss.2023.v48i02.045

Introduction

Nations continuously struggle to maintain their place in the global marketplace in an increasingly linked and driven by economic prowess globe. This need was further reinforced by the unforeseen and unprecedented nature of the recent pandemic when the global supply chain was severely affected and the role of nations become more apparent in facilitating goods and services to its people and keeping the economy strong. India has always been a popular location for international investment due to its immense potential and entrepreneurial drive. One of the schemes that the government launched during the pandemic was the Production-Linked Incentive (PLI) scheme, which is poised to put India on a road to restoring its position as a manufacturing powerhouse while reshaping the global economic order.

Challenges with India's Manufacturing Sector

Earlier India faced numerous challenges in competing with established manufacturing giants. Despite having a large customer base and a competent workforce, the country lacked infrastructure, cost competitiveness, and ease of doing business. These objections impeded India's ability to attract considerable FDI in the manufacturing sector, resulting in a heavy reliance on imports, particularly from China.China has ascended to the unparalleled position of global industrial giant, dominating the global manufacturing scene. Its low-cost labor, wide supply networks, and large-scale manufacturing capabilities make it an appealing alternative for businesses trying to minimize costs while increasing profits.As a result, India grew overly reliant on Chinese imports, rendering it vulnerable to global supply chain disruptions such as the recent pandemic.

Overview of the Scheme

Realizing the need to reduce dependency on imports and revive the manufacturing sector, the Indian government launched the PLI scheme in 2020. The primary objective of this scheme was to incentivize domestic manufacturing, attract FDI, and propel India towards self-reliance in critical sectors. Under the PLI scheme, eligible companies are offered financial incentives based on their incremental sales and investments in manufacturing facilities. This strategy strives to increase productivity, raise competitiveness, and provide job possibilities.

The PLI strategy focuses on essential industries such as electronics, automobiles, medicines, textiles, and renewable energy. The government intends to create a suitable climate for both local and foreign investors to build up manufacturing facilities in India by focusing on these vital industries. This action not only boosts the country's industrial basis, but it also promotes technology transfer and information sharing.

One of the most notable aspects of the PLI scheme is its ability to influence the dynamics of international commerce.As China faces rising labor costs, environmental concerns, and trade disputes, many multinational companies are seeking alternative production locations. India, with its growing middle class and favorable demographics, presents an attractive option. The PLI scheme further sweetens the deal by offering financial incentives, making India an irresistible choice for global manufacturers.

The impact of India's PLI scheme on international economics cannot be understated. With companies diversifying their supply chains and reducing reliance on a single manufacturing hub, the global manufacturing order is poised for a paradigm shift. India's rise as a manufacturing powerhouse not only benefits the country but also creates opportunities for economic partnerships, trade collaborations, and technology transfers across borders.

Furthermore, the PLI scheme aligns with the Indian government's vision of an Atmanirbhar Bharat (self-reliant India). India aims to lower its trade deficit, increase exports, and enhance its economic resilience through developing indigenous manufacturing skills. This action has the potential to enhance India's status in the global economic arena, allowing it to significantly contribute to global economic growth and development.

Status of the Scheme

Mobile phones, medical equipment, and telecom & networking items were the first three industries for which the program was initially presented in 2020. Later, other industries were included in the program, and presently it is offered in 14 manufacturing industries:

- Mobiles
- Medical devices
- Telecom & networking products
- Automobiles and auto components
- Pharmaceuticals, drugs
- White goods
- Specialty steel
- Electronic products
- Food products
- Textile products
- Solar PV modules

- o Advanced chemistry cell battery
- o Drones and drone components

The PLI scheme has been effective in luring investment to India's industrial sector. The programs have boosted exports and helped to create jobs.

The PLI scheme has been introduced for several industries during the course of its three years at various points. The PLI programs for the 14 sectors have received a budget of Rs. 1.97 lakh crore from the government(MEITY, 2023). Up till March 2023, 733 proposals in 14 industries with an anticipated investment of Rs 3.65 lakh crore were approved(ET Online, 2023). An actual investment of Rs 62,500 crore was realized up through March 2023, resulting in a rise in production of roughly Rs 6.75 lakh crore and the creation of nearly 3,25,000 jobs.

The eight industries that have submitted incentive claims totaling over Rs 3,420 crore, of which over Rs 2,800 crore has already been paid out, include bulk drugs, electronics and technology products, medical devices, pharmaceuticals, telecom and networking products, food items, and drones. The largest spending was on large-scale electronics production ($1,649 billion), followed by the pharmaceutical business ($652 billion) and the food industry ($486 billion).

View Point on the Scheme

In comparison to 2020–21 ($12.09 billion), foreign direct investment in the manufacturing sector increased by 76% in 2021–22 ($21.34 billion).The scheme's total investments have climbed to Rs 5,124 crore as of December 2022, up from Rs 3,726 crore in FY23. Over five years, the initiative is estimated to generate a total cumulative investment of Rs 7,000 crore(Lele, 2023). Large-scale electronics manufacturing, pharmaceuticals, food processing, telecom, white goods, autos, and auto components are among the eight industries with strong PLI performance. High-efficiency solar PV modules, advanced chemistry cell (ACC) batteries, textile goods, and specialty steel are some industries that are not doing well.

Albeit of the mentioned few sectors the scheme over the last couple of years has shown great potential in building India's manufacturing capabilities, becoming one of the leading drivers of exports. As the major industries are witnessing favorable economic and political support from the government, they will flock to India establish their manufacturing units and export worldwide boosting investment as well as consumer exports. This would soften the heavy reliance of India on the service sector and have the potential to put itself on par with manufacturing economies such as China.

Conclusion

In conclusion, India's PLI scheme serves as a blueprint for a new global manufacturing order. By incentivizing domestic manufacturing and attracting foreign investment, India is reclaiming its position as a manufacturing hub. The scheme not only strengthens India's industrial base but also reshapes the dynamics of international economics. As companies expand their supply chains, India appears as a credible alternative to China, opening up new avenues for economic partnerships and trade collaboration. The unsolved issue is whether India's PLI plan would herald in a new age of global industrial dominance or simply serve as a stepping stone to a more competitive future.

One thing is certain as India embarks on this new chapter: the rest of the world will be watching, eager to see how this vast economic experiment and the transformation it promises will play out. Will India's PLI plan constitute a watershed moment in the country's manufacturing environment and global standing? Observation is the only surefire method to know. However, one thing is certain: India's will and skill can revolutionize the global economic system and leave a lasting legacy for future generations.

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