



# CURRENT AFFAIRS



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## PRODUCTION LINKED INCENTIVE SCHEME (PLI)

This article covers “**Daily Current Affairs**” and details the topic of the **Production Linked Incentive Scheme (PLI)** to make India a manufacturing hub.

**Syllabus mapping: GS-3: Changes in the industrial policies and their effects on the industries.**

**For Prelims:**

**What are the provisions of the PLI and its sectors?**

**For Mains:**

How the PLI will help to make India as self-reliant in the manufacturing sector.

**Why In the News?**

176 MSMEs benefited from the PLI Scheme, says MoS Jitin Prasada.

**What is the PLI Scheme?**

**Overview:**

In a bid to transform India into a global hub for electronics manufacturing, the Indian government launched the Production Linked Incentive (PLI) Scheme for Large Scale Electronics Manufacturing. **Officially detailed in the Gazette Notification dated April 1, 2020, this forward-thinking initiative is designed to invigorate domestic production capabilities and attract substantial foreign investments.** The scheme aims to create a robust electronics ecosystem. This ambitious program is set to significantly enhance India’s position in the global electronics sector, driving innovation and boosting the country’s manufacturing landscape.



### Objectives:

1. Enhance manufacturing capabilities.
2. Encourage investment in new technologies.
3. Expand production capacity and create job opportunities.
4. Strengthen local supply chains and contribute to economic growth.
5. Attract domestic and foreign investments.
6. Boost economic growth and industrial development.
7. Increase export competitiveness and reduce import dependency.

**Incentives:** Incentives under the scheme are based on incremental sales and vary by sector:

- **Electronics and Technology Products:** Incentives start at 1%.
- **Crucial Pharmaceuticals and Drug Intermediaries:** Incentives can reach up to 20%.
- **Other Sectors:** For industries like advanced chemical cell batteries, textiles, and drones, incentives are determined based on sales performance and local value addition over a five-year period.

**Sectors Covered:** The government has announced PLI programs for the following industries, including:

1. Automobiles and Auto Components
2. Electronics and IT Hardware
3. Telecommunications
4. Pharmaceuticals
5. Solar Modules

6. Metals and Mining
7. Textiles and Clothing
8. White Goods
9. Drones
10. Advanced Chemical Cell Batteries

### **Working Structure of the PLI Scheme:**

**Project Management Agency (PMA):** Application to the relevant ministries. Then the PMA will review the application for incentives. If the PMA finds a firm's application in order, it recommends subsidy approval to an Empowered Committee (EC).

**Empowered Committee (EC):** The EC, reviews recommendations from the PMA. This committee is tasked with approving firms for incentives and overseeing periodic reviews of their investments, employment generation, and production output.

**Conditions and Eligibility:** Eligible firms, whether domestic or foreign, must be registered manufacturers in India. There are caps on total disbursements and the number of eligible firms per sector, introducing a competitive element to the allocation of incentives.

### **Current Results (as of 2023):**

- Investments: Over INR 1.03 lakh crore.
- Exports: Worth INR 3.20 lakh crore.
- Jobs Created: Over 6 lakh (directly and indirectly).
- Beneficiaries: Micro, Small, and Medium Enterprises (MSMEs) and larger businesses.
- Reduction in Import Reliance: Significant decrease in dependency on imports for sectors like pharmaceuticals.
- **Expansion:** In August 2023, the scheme was broadened to include 14 additional sectors with a budget of INR 1.97 lakh crore.
- **Projected Impact:** Minimum production expected to exceed INR 3.75 lakh crore within five years.

### **Significance of the PLI:**

1. **Increased Competitiveness:** The PLI scheme is seen as a tool to enhance the competitiveness of domestic industries by providing incentives for increased production. Scholars argue that this can help reduce import dependency and foster self-reliance in critical sectors.

2. **Job Creation:** The scheme is expected to create jobs by encouraging investments in new manufacturing facilities and expanding existing ones. This can contribute to economic growth and reduce unemployment.
3. **Global Integration:** By offering incentives, India aims to attract foreign direct investment (FDI), which can bring in new technologies and management practices. This integration into global supply chains can benefit local industries through technology transfer and best practices.
4. **Diversification:** The scheme targets various sectors, including electronics, pharmaceuticals, and textiles. Scholars note that this sectoral diversification helps spread economic benefits across different industries and regions.
5. **Research and Development:** The emphasis on production can drive companies to invest more in research and development (R&D), fostering innovation and improving product quality.
6. **Support to the MSME:** The main objective of the PLI is to support and provide India's largest manufacturing base; MSME industries which contribute to 28% of the GDP.
7. **Bridging the gap:** the PLI will bridge the gender gap by providing incentives to women entrepreneurs. The PLI also helps to reduce the urban- Rural migration gap because it provides incentives to the companies that are set up in the rural areas.

#### **Various issues with the PLI:**

1. **Bureaucratic Challenges** The scheme's administrative structure—comprising multiple agencies, committees, and layers of review—can lead to inefficiencies and delays. The emphasis on documentation and compliance may inadvertently discourage deserving firms from participating or benefiting fully from the scheme.
2. **Potential Pitfalls:** The scheme's conditions, such as the exclusion of land and building investments from eligibility calculations, and the requirement for detailed separation of greenfield and brownfield investments, could deter firms.
3. **Implementation Issues:** Reports of delays in approvals, land acquisition issues, and challenges in meeting investment targets—exacerbated by the COVID-19 pandemic—reflect the scheme's current implementation difficulties.
4. **Reduced Competition:** Protected firms may experience reduced competitive pressure, allowing them to profit without necessarily improving their efficiency or innovation.
5. **Cronyism and Regulatory Capture:** Favored firms might lobby for the continuation of protections, leading to a situation where government policies become entrenched, reducing competition and innovation.
6. **Arbitrary Selection:** What criteria are used to select additional sectors or products for inclusion? The process appears to be reactive rather than strategically planned.

7. **Lobbying Pressure:** As more sectors vie for inclusion, there is a risk that political and business lobbying could influence the scheme's scope, potentially undermining its effectiveness and fairness.
8. **Unintended Consequences:** Extending the scheme to more products and sectors without a clear rationale could exacerbate existing market distortions and administrative inefficiencies.

#### **Potential solutions to make the PLI a vehicle for India's self-reliance:**

- **Improving Regulatory Efficiency:** Enhancing single-window approvals, digital compliance, and competitive rates for power and credit can facilitate GVC operations.
- **Investment in R&D:** Supporting specialized research and development through competitive grants to universities and offering tax exemptions for reinvested capital can drive innovation.
- **Skilling and Training:** Enhancing vocational training and establishing ITI-like institutions can improve labor productivity and support industrial growth.
- **Demand Creation:** Stimulating demand in high-tech sectors like defense and aerospace can create economies of scale and drive innovation.
- **Infrastructure Development:** Investing in physical infrastructure, such as roads, railways, and ports, can enhance logistics efficiency and reduce costs. Improved infrastructure supports the efficient movement of goods and raw materials, thereby boosting competitiveness.
- **Focusing on Value Chains:** Encouraging private foreign direct investment (FDI) in GVCs and improving regulatory frameworks can integrate India into global supply chains. This includes sectors like electronics, pharmaceuticals, and automotive components.
- **Antitrust Policies:** Ensuring a competitive market environment through anti-trust regulations can foster innovation and efficiency among firms, contributing to overall competitiveness.
- **Goods and Services Tax (GST) Reform:** Simplifying the GST structure to a uniform rate, such as 10%, can streamline tax administration and lower costs across industries. This would enhance competitiveness by reducing the complexity and inefficiency associated with multiple GST rates.
- **Electricity Sector Reform:** Reduce the high electricity costs, so companies can make profits.

#### **Conclusion:**

The Production Linked Incentive (PLI) Scheme stands as a cornerstone in India's journey toward self-reliance in manufacturing. By providing financial incentives linked to production volumes, the scheme aims to significantly boost domestic production capabilities and reduce dependency on imports. This approach encourages investment in advanced technologies and infrastructure, leading to the growth of local industries and the creation of high-quality jobs.



## PRELIMS QUESTION:

**Q. Consider the following statements with respect to the Production Linked Incentive (PLI) Scheme:**

1. The PLI scheme is a multi-sector scheme available for both domestic and foreign companies registered in India.
2. The PLI Scheme works on the basis of fixed incentives to companies.
3. The PLI scheme is in line with the Idea of Atmanirbhar Bharat ( Self Reliance India)
4. The PMO is the nodal agency for the implementation of the Scheme.

Which of the above-given statements are correct?

- (a) 1 and 2  
(b) 1 and 3  
(c) 2 and 4  
(d) 3 and 4

**Answer: b**

## MAINS QUESTION:

“The successful implementation of the PLI scheme will be crucial in realizing India’s vision of becoming a leading manufacturing hub on the world stage”. Comment? (250 words 15 mark)

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