KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

Role of PLI Scheme in Manufacturing Sector

Published On: 09-06-2023

Why in News:

In a recent note, former Reserve Bank of India (RBI) Governor Raghu ram Rajan questioned the success of the production-linked incentive (PLI) scheme in boosting India's domestic manufacturing and exports.

About PLI Scheme

In the Union Budget 2021-22, presented on 1st February 2021, the Finance Minister announced an outlay of **INR 1.97 Lakh Crores** for the Production-Linked Incentive (PLI) Schemes for **13 key sectors**, to **create national manufacturing champions** and **generate employment opportunities** for the country's youth.

This means that minimum production in India as a result of PLI Schemes is expected to be over **US$ 500 billion in 5 years.**

The Centre believes that the PLI scheme has boosted the domestic manufacturing sector.

Currently, the scheme covers sectors like automobiles and auto components, specialty steel, telecom and networking products, electronic/technology products. The PLI scheme has also been extended to white goods (ACs and LEDs), food products, textile Products — MMF (man made fibre) segment and technical textiles, high efficiency solar PV modules, and ACC battery.

Demand for including sectors like certain electronic components, toys, furniture, bicycle, and containers has come against the backdrop of the government's move to cut imports and boost domestic manufacturing.

Objective of the Scheme

PLI Schemes are a cornerstone of the Government's push for achieving an Atmanirbhar Bharat.

The objective is to make domestic manufacturing globally competitive and to create global Champions in manufacturing.

The strategy behind scheme is to offer companies incentives on incremental sales from products manufactured in India, over the base year.

They have been specifically designed to boost domestic manufacturing in sunrise and strategic sectors, curb cheaper imports and reduce import bills, improve cost competitiveness of domestically manufactured goods, and enhance domestic capacity and exports.

Concerns with the Scheme

PLI is a freebie to the corporate sector. And it is based on the idea of supply side economics, which means that we give incentives to the private sector to produce, but this will not work when demand is short

The bulk of the PLI is focused on the organised sector in which employment generation is very little because of automation.

The other structural problem that needs to be highlighted is the inadequacy of research and development (R&D) by businesses. Imports deter local R&D. We have been facing this problem for the last 50-60 years. India invests much less than most dynamic economies spend on R&D

Industrialisation and manufacturing don't happen in a vacuum in this globally integrated world. So, we need to be watchful of what other governments are doing and develop our own strategies accordingly.

The Way Ahead

It is very clear that we need to address the structural issues. Infrastructure has to be fixed, the quality of education has to be improved at all levels, and R&D investments have to be enhanced.

Effort towards promotion, facilitation and incentivisation of investment should be put

Given the lack of political accountability in our system, there's a large amount of cronyism, and the bureaucratic approach which needs to be relaxed

Further, subsidies need to be distinguished. A general subsidy is one that is necessitated by the macro situation of the economy, whereas a specific subsidy is given to sectors or to companies and are based on micro-level decisions that are taken by the government.