# Measures needed beyond the PLI Scheme

## Why in news?

Production Linked Incentive Scheme (PLI) have been floated by the government to encourage capital investment for a higher output but the capital formation rate has moved rather sluggishly.

## What is PLI Scheme?

- In the Union Budget 2021-22, the government has committed nearly Rs.1.97 lakh crore to create manufacturing global champions for an Atma Nirbhar Bharat.
- **Aim**- To create national manufacturing champions and to create 60 lakh new jobs and an additional production of 30 lakh crore during next 5 years.
- For target segments, the scheme provides incentive of **4% to 6%** on incremental sales over the base year for goods manufactured in India.
- The incentive is a kind of subsidy provided to the sector based on the disadvantage or disability faced by the sector.
- **Objectives**
    - Make domestic manufacturing competitive and efficient
    - Create economies of scale
    - Make India part of global supply chain
    - Attract investment in core manufacturing and cutting edge technology
    - Competitive manufacturing would in turn lift the exports

## PRODUCTION LINKED INCENTIVE SCHEME (PLI)

| Priority | Sectors | Implementing Ministry/Department | Outlay 5-years Rs cr |
|---|---|---|---|
| 1. | Advance Chemistry Cell (ACC) Battery | NITI Aayog and Department of Heavy Industries | 18,100 |
| 2. | Electronic/Technology Products | Ministry of Electronics and Information Technology | 5,000 |
| 3. | Automobiles and components | Department of Heavy Industries | 57,042 |
| 4. | Pharmaceuticals drugs | Department of Pharmaceuticals | 15,000 |
| 5. | Telecom & Networking Products | Department of Telecom | 12,195 |
| 6. | Textile Products: MMF segment and technical textiles | Ministry of Textiles | 10,683 |
| 7. | Food Products | Ministry of Food Processing Industries | 10,900 |
| 8. | High Efficiency Solar PV Modules | Ministry of New and Renewable Energy | 4,500 |
| 9. | White Goods (ACs & LED) | Department for Promotion of Industry and Internal Trade | 6,238 |
| 10. | Speciality Steel | Ministry of Steel | 6,322 |
| Total | | | 1,45,980 |

### What is the current issue?

- Despite promoting schemes such as PLI, the capital formation rate has moved rather sluggishly to 29.2%, which is well below levels of 36.1% seen in FY12.
- **Structure of capital formation in the economy**- It is essential to know which sector or institution provides the impetus.
- **Consumption**- Consumption needs to be increased to induce industry to invest more.

### How about the investment pattern in India?

- **Household sector**- Private consumption accounts for 55% of all GDP and is the biggest engine of growth.
- In FY21, the biggest contributor was the household sector with a share of 39%.
- Of this, 25.4% was in houses and 13.4% was accounted for by plant and machinery.
- Therefore, it is necessary for individuals to buy more homes to drive investments.
- **SMEs**- The plant and machinery emanating from the household sector is the investment made by SMEs.
- Many Small and Medium Enterprises (SMEs) have been in the process of recovering and several units were closed down due to lockdowns.
- **Private non-financial corporate sector**- The investments made by businesses is the second biggest engine of GDP growth, accounting for 33% of all GDP.
- The main challenge here is that companies will invest provided there is demand.
- **Government expenditure**- Government contributes a share of around 16% mostly to the construction sector that gets reflected in roads and urban development.
- The challenge here is that the States are grappling with fiscal constraints that often lead to cut back on capex spending to ensure fiscal deficit targets are not breached.
- Several of the Public Sector Units (PSUs) are either in the distress of regulation (Oil) or under financial strain (Discoms) or just being unviable and waiting to be disinvested.
- **Economic sectors-** Looking from the point of view of economic sectors that contribute to investment, the dominant sector here is real estate followed by

manufacturing.
- Hence, the PLI is just one segment of the economy.

## What is the way forward?

- **Going beyond PLI**- The investment needs to go beyond the PLI which pertains to manufacturing to address challenges in terms of demand.
- When demand is stagnant, there is less inducement to invest as there is a cost of capital as well as cost of holding inventory involved.
- **Addressing the key issues**- The jobs have not been created commensurate with economic growth, which was an issue even before the pandemic.
- High inflation in some of the key consumption segments has militated against demand.
- For investment to increase on a large scale, consumption too should be rising at a smart pace.
- There is a need to look at all sectors when providing incentives, and not just manufacturing.

**References**


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