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Impact of Production-Linked Incentive (PLI) schemes on India's manufacturing industry

SINGH ROHIT KUMAR UDAY VEER

RESEARCH SCHOLAR

KENNEDY UNIVERSITY

PROF. DR. KONSTANRINOS ATHANASOPOULOS

PROFESSOR

KENNEDY UNIVERSITY

Abstract

The Production-Linked Incentive (PLI) scheme, which was launched by the Government of India in 2020, is intended to support local production and draw foreign investment in strategic areas that can support Indian economic growth. Its intent is to decrease dependence on imports, increase home-grown capability, and make Indian products competitive by providing financial incentives based on additional sales of locally manufactured products. The PLI Scheme was initially launched in March 2020 by the Indian government, concentrating mostly on mobile manufacturing, electronic components, and pharmaceutical production, to convert India into an export-oriented economy with domestic enterprises building an international export foundation. It is an incentive-based program wherein the government provides major multinational corporations with incremental sales incentives to invest in establishing manufacturing facilities in India. The initiative aims to assist India in achieving a $5 trillion economy by enhancing the manufacturing sector via incentive-based investments from international enterprises. PLI is anticipated to yield an economic growth rate of 8.7% in the forthcoming financial year 2022-23. India's local manufacturing and supply chain sectors have long suffered from inadequate infrastructure, logistical challenges, and investment deficits; the PLI scheme was initiated to enhance the domestic supply chain and attract investments in industries such as electronics and automotive, positioning India competitively on the global stage.

Keywords:

Production-Linked, Incentive, Government, Manufacturing, Supply

Introduction

The Honourable Finance Minister, Shri Nirmala Sitaraman, declared in November 2020 that the Government of India will expand the initiative to 10 other sectors, including automobiles, batteries, and speciality steel, for a duration of 5 years The initiative is also expanded to the textile sector. emphasising MMF fibres, pharmaceutical sectors, and food processing facilities. The PLI scheme will utilise 2019-2020 as the base year and will be extended for five years commencing from 2020. The initiative is overseen by India's principal planning organisation, Niti Aayog, with a primary emphasis on recruiting foreign investments. (Kumar, 2024)

Companies such as Apple and Samsung Electronics Co have committed over 1.5 billion dollars to establish electronics manufacturing facilities in return for around 4-6% of incremental sales over the following five years under the Production Linked Incentive plan (Aayog, N. I. T. I. 2016). Although the strategy is effective in the mobile and manufacturing sectors, disseminating these advantages to other sectors remains a difficulty that must be addressed.

The program provides a defined proportion of incentives based on the increase in sales of manufactured items. Incentives are granted to qualifying enterprises over five-year duration, contingent upon the achievement of their sales and manufacturing objectives. These objectives are established to motivate organisations to enhance their Production capability and market dominance. The PLI initiative promotes domestic production while simultaneously seeking to entice foreign corporations to invest in India. The government seeks to enhance India's appeal to investors while promoting the nation as a worldwide manufacturing hub through financial incentives.

The execution of the PLI concept presents numerous benefits. It enhances employment prospects by generating new positions and stimulates increased demand for local suppliers. It also facilitates technology transfer as well as innovation as companies endeavour to improve their manufacturing processes capabilities. Furthermore, the initiative enhances exports; consequently ameliorating India's trade balance .The PLI plan employs a competitive bidding process to guarantee openness along with fairness. Qualified companies present their plans, which are assessed according to multiple factors including production capacity, technological capability, including financial feasibility. This guarantees that industrial incentives are distributed to deserving and competent enterprises. (Jebb, 2021)

The Production Linked Incentive (PLI) scheme represents a crucial initiative by the Government of India to enhance local manufacturing as well as draw investments. The initiative seeks to attain self-sufficiency, improve international competitiveness, and stimulate economic development through financial incentives and a focus on critical areas.

The PLI scheme offers financial assistance to eligible enterprises in terms of grants, subsidies, or incentives for investing in plants, development of technology, and capacity building. The electronics manufacturing industry received a $2.7 billion PLI scheme from the government to boost manufacturing operations with a $7 billion investment outlook creating 91,000 jobs during the next five years. Textile producers can access ₹10,683 crore worth of incentives through the PLI scheme which supports five-year high-value Man-Made Fibre (MMF) fabric and garment and technical textiles production.

This program will build over ₹3 lakh crore of extra production turnover while establishing employment opportunities for more than 7.5 lakh people. The automobile and auto components sector receives financing up to ₹57,042 crore under the PLI scheme for boosting manufacturing and accelerating electric vehicles and their component production.

The Indian government created a PLI scheme that allocates ₹15,000 crore to enhance critical drug domestic production through funding of drug and their intermediate manufacturing operations and by reducing foreign import dependence to enhance export abilities. The PLI scheme gave the telecom and networking products sector ₹12,195 crore to support local production as well as lower dependence on external supplies. According to plan, this initiative should offer both considerable job creation and major capital investment. (Ghosh, 2020)

Literature Review

Ahmed et al. (2023): Provisions under the scheme also make provision for support for research and development (R&D). Businesses investing in R&D can enjoy additional assistance, encouraging innovation, technological improvement, and diversification of product.

Bhardwaj et al. (2022): The Production Linked Incentive (PLI) scheme includes provisions which boost research and development (R&D) activities. Under its R&D initiatives the semiconductor sector receives 2.5% funding from the total scheme budget. The designed allocation seeks to enhance innovation and technological progress and industry product expansion.

Bhattacharjea et al. (2022): R&D emphasis by the scheme remains restricted while it fails to specify key objectives and main areas for focus. The effectiveness of the Production Linked Incentive (PLI) scheme requires implementing three recommendations which focus on raising R&D investments and defining clear research goals and strengthening academic and research institution collaborations.

Garg et al. (2020): The Production Linked Incentive (PLI) scheme plays an important role in job creation by encouraging the setup or growth of production units, which minimizes unemployment and encourages growth in the economy. The implementation of the (PLI) scheme has substantially produced new job opportunities throughout Indian territories. The scheme established in August 2024 generated more than 9.5 lakh direct jobs in 14 important sectors that consist of electronics with pharmaceuticals and food processing together with textiles.

George et al. (2023): The food processing sector achieved more than 2.89 lakh job creations through October 2024. The electronics manufacturing industry now employs over 1.37 lakh direct workers. Statistical data confirms that the PLI scheme serves to develop manufacturing strength while creating new employment opportunities for the Indian Workforce.

Impact of Production-Linked Incentive (PLI) schemes on India's manufacturing industry

The Production Linked Incentive (PLI) scheme is a governmental initiative in India designed to enhance production as well as manufacturing within the nation. The initiative encompasses multiple aims aimed at accomplishing this goal. The PLI initiative boosts Indian export prospects by providing business incentives to create Items for the international market. The initiative targets important sectors which present export possibilities to boost India's export worth. The government supports this economic agenda which involves creating India into an international manufacturing and exporting hub.

The implementation of PLI schemes since FY 2024 resulted in more than ₹4 lakh crore (approximately $48 billion) worth of exported products. The sector of electronics exports showed tremendous growth during April–November 2024 with a 27.4% boost to reach $22.5 billion compared to $17.66 billion in the same period of 2023. The scheme shows significant progress in electronics and pharmaceuticals yet it produced limited results in multiple sectors. The Hindu media reports that distribution of sanctioned incentives stands below 8% levels which has prompted calls for improved implementation procedures.

Experts have highlighted the involvement of ₹1.61 trillion investments in the scheme yet they point out that policy definition problems and sectoral inclusion limitations persist. The program functions to increase worldwide business competitiveness by providing financial incentives to manufacturers that achieve performance-level goals. The scheme drives Indian manufacturers toward adopting modern technology which increases their productivity and ensures higher product standards to follow international benchmarks.

The Indian government committed ₹1.97 lakh crore (approximately $23 billion) to the PLI scheme throughout strategic sectors in August 2024 including electronics, pharmaceuticals, automotive, textiles and renewable energy. During the first half of 2024 the government distributed only ₹8,700 crore which represented less than 8% of the total authorized subsidy amount.

The PLI initiative also promotes indigenous production, offering incentives to Indian enterprises to reduce reliance on imports and strengthen India's self-sufficiency. This is in line with the broader "Make in India" vision of developing a self-reliant manufacturing ecosystem. The scheme expanded production by more than ₹12.5 lakh crore across various sectors during FY 2024.

India achieved a position as the second-largest mobile phone exporter worldwide through its electronics sector after mobile phone exports grew to $15 billion during FY 2023–24. Pharmaceutical firms operated through ₹604 crore worth of incentives which supported India to become the third-largest pharma manufacturer by volume and made up 50 percent of their total production through exports.

The automobile sector secured ₹20,715 crore in PLI investments whose sales increased by ₹10,472 crore before September 2024. The textile industry is predicted to produce ₹2.4 lakh crore in value from a government funding of ₹10,683 crore. The food processing industry will produce more than ₹33,000 crore in output together with 2.5 lakh new jobs by 2026–27.

The PLI scheme is expected to generate employment at various skill levels, contributing to job creation and tackling unemployment. This initiative is a critical component of the government's efforts to foster inclusive growth early in 2025 the scheme created 11.5 lakh job positions that equally covered direct employment and indirect employment positions across vital industry sectors. Electronics manufacturing brought forth more than 1.37 lakh direct employment opportunities throughout mobile phone production growth.

Food processing employment reached 2.89 lakh jobs during October 2024 showing good development towards its planned 2.5 lakh jobs by 2026-27. The pharmaceutical along with electronics industries jointly

responsible for more than 75% of total workforce expansion under the PLI framework. The scheme achieves dual benefits for industry production levels and it facilitates social-economic opportunities through employment creation.

By attracting foreign direct investment (FDI), the PLI scheme boosts India's appeal to foreign enterprises looking to expand operations. The influx of FDI is expected to further develop the manufacturing sector and increase production capacity. The PLI scheme will create jobs for different professions to fight unemployment through employment generation. The government includes this initiative as a fundamental component of its mission to build inclusive growth. The scheme introduced in early 2025 has led to more than 11.5 lakh job opportunities which spread throughout direct and indirect employment across main sectors.

Performance-Linked Subsidies program provides performance-based subsidies to industries according to their production levels. Such subsidies are generally awarded for a specified time (for example, five years), encouraging industries to produce more and gain market share.

The Production Linked Incentive (PLI) scheme gives performance-based subsidies to industries allowing them to boost their manufacturing capacity while developing market dominance. Each sector receives its PLI subsidies over five years according to its strategic requirements.

The Production Linked Incentive (PLI) scheme offers producers of mobile phones and electronic components rewards through incremental sales between 4 to 6% based on sales from the fiscal year 2019–2010. Manufacturers in the semiconductor sector receive 50% of all project development costs when establishing fabrication units alongside display fabs or assembly facilities.

The subsidy program in Advanced Chemistry Cell (ACC) battery manufacturing grants up to 20% of sales price through a value addition and sales volume-based calculation method. Specialty steel manufacturers can access performance-based incentives between 4 to 6% which are determined by their increased sales of domestic high-grade steel products.

The food processing sector does not specify ratio figures but the government plans to allocate ₹10,790 crore to help firms reach their annual target revenue goal which exceeds ₹1.2 lakh crore during a six-year period. The textile sector receives financial support worth ₹10,683 crore to develop both man-made fiber and technical textile production. Through targeted incentives under the PLI scheme India strives to build faster

domestic independence while gaining manufacturing strength in the global market and developing sustainable industrial practices.

The PLI scheme functions as a performance-based subsidy initiative that benefits from companion tax incentives which provide manufacturing cost reductions while promoting investment in India. The PLI initiative obtains its most crucial support from the corporate tax reform of 2019 which brought down the tax rate for local businesses from 30% to 22% while establishing new manufacturing setups after October 1, 2019 to qualify for a 15% tax rate if they start producing by March 31, 2024.

India has positioned itself at the forefront of worldwide manufacturing tax competition thanks to these tax rate decreases which particularly benefits PLI-linked firms who want rapid operational growth. The Special Economic Zones (SEZ) policy grants total income tax exemption during the first five years before offering 50% tax breaks from year six through ten and tax benefits for reinvestments of profits.

Companies that operate from SEZs and state industrial zones belonging to the PLI program gain tax benefits to enhance their profitability and streamline their funding requirements. The import of capital equipment together with essential manufacturing materials receives duty concessions from the government for sectors that include electronics along with pharmaceuticals and renewable power generations.

Reducing production input costs and accelerating technology upgrade procedures depend on the important duty concessions offered by the government. Indian states provide manufacturers with extra benefits like stamp duty exemptions as well as subsidized electricity and capital interest subsidies and preferential land rental options.

The PLI scheme encourages India's program of "Atma Nirbhar Bharat" by encouraging local production and curtailing dependence on imports, providing a favorable climate for investment in Indian manufacturing capability. Through the Production Linked Incentive (PLI) scheme India has succeeded in enhancing its manufacturing capabilities consistent with the national Atma Nirbhar Bharat program which aims to boost domestic production and decrease foreign imports. Approximately $19 billion in investments have entered the scheme through March 2025 while resulting in manufactured products worth $163 billion that correspond to 90% of the government's production expectations for fiscal year 2024–25.

The global mobile phone producer standing ranks India second because mobile phone exports reached $15 billion during the fiscal year ending March 2024. The PLI schemes boosted manufacturing output to ₹10.9

lakh crore which equals $131.6 billion during June 2024 while creating exports totaling ₹4 lakh crore or $48 billion. The statistics demonstrate how the PLI program plays an essential part in strengthening Indian manufacturing operations and fueling national economic development.

Conclusion

One lakh thirty-seven thousand direct jobs resulted from rising mobile phone production in the electronics manufacturing sector. Food processing industry successfully hired 2.89 lakh employees up to October 2024 leading toward its 2.5 lakh jobs target for 2026–27. Together the pharmaceutical industry and electronics sector contribute more than 75% to the total employment numbers resulting from the PLI program. The scheme demonstrates two primary outcomes which show its influence on industrial results combined with its sociological advantages through employment generation. The PLI initiative is vital for revitalising India's manufacturing sector, creating employment, enhancing competitiveness, and driving economic development, positioning India as a leader in global manufacturing.

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