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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