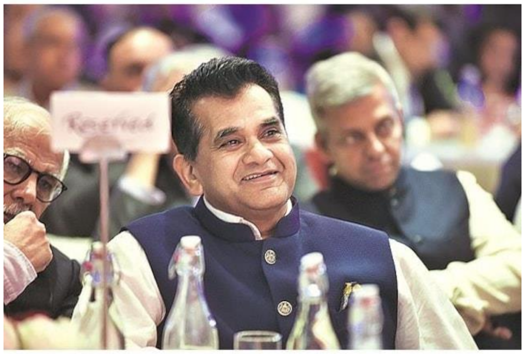
1. PLI scheme to put India on firm footing in global value chain: Amitabh Kant

Nikunj Ohri, Business Standard: 23.06.2022

In a Q&A, the NITI Aayog CEO asserts that all sectors, not just manufacturing or services, will have to grow for India's economic transformation



The production-linked incentive (PLI) scheme will help put India on a firm footing in the global value chain by creating competitive firms, NITI Aayog chief executive officer (CEO) Amitabh Kant told Nikunj Ohri in an interview. The total investment committed under the PLI scheme now amounts to Rs 2.54 trillion, and is expected to create 5.9 million direct jobs. For India's economic transformation, all sectors of the economy will have to grow, not just manufacturing or services, Kant said, adding that manufacturing and exports have played a key role in transformation of economies such as Japan, South Korea and China, and India must learn from their experience. Edited excerpts:

India has not been able to build significant capacity in manufacturing, and experts have been saying India will find it tough to replicate manufacturing and exports led growth model?

For India to grow at high rates, we will need all sectors of the economy to grow, not just manufacturing. Manufacturing and exports have played a key role in transformation of economies such as Japan, South Korea, and China. These countries have seen the export-led growth model ushering in economic transformation within a generation.

India must learn from their experience where domestic industry was nurtured, and export markets targeted. This built-in quality, cost competitiveness and adoption of latest technologies in their strategies, have helped their companies to compete and lead in global markets.

Should India focus on services-led growth?

Since the economic reforms, we have seen services-led growth in the economy. However, our share of manufacturing in GDP has remained stagnant. While License Raj was dismantled, it left behind a web of rules and regulations, placing a high compliance burden on business. Poor infrastructure raised the cost of logistics, and large scale employment in manufacturing was missing from India's growth story.

Countries like South Korea have been able to pull out labour from agriculture into manufacturing, raising average incomes. Without a strong manufacturing sector, we will not be able to see the transformation witnessed by these countries. Global value chains are currently being realigned, and this is an opportunity for India to carve out a share.

This doesn't mean we should focus only on manufacturing-led growth. Our startup ecosystem is now the 3rd largest in the world and creating new avenues for livelihoods in the service sector. For our economic transformation, all sectors of the economy will have to grow, not just manufacturing or services.

How does PLI scheme aim to push growth?

India needs to increase investments both in manufacturing and employment. However, this will not happen without boosting the competitiveness of the sector. The government has streamlined processes, scrapped 1500 old laws, introduced key economic reforms such GST, IBC, codified central labour laws, and announced Rs 100 trillion worth investments in infrastructure. PLI schemes have been build on these moves. The objective of the scheme is to build size and scale in manufacturing and integrate into global value chains. Investments worth Rs 2.54 trillion have been committed as part of the schemes. It is expected that around 5.9 million direct jobs will be created through the scheme, and many more indirectly.

Earlier efforts to boost manufacturing have not been successful, how is PLI schemes different from earlier schemes/subsidies to boost manufacturing?

A radical shift was required to become globally competitive, and the earlier approach of subsidies had to be reconsidered. Outcome orientation, growth driven and focus on enhanced production were the key aspects in designing the PLI scheme.

As against subsidising inputs like earlier, focus now is on incentivising production. Only when production targets are met are the financial incentives released. This builds in accountability and transparency. The targets are difficult to meet, and are set higher every year. This further incentivizes companies to raise efficiency and productivity.

PLI schemes move away from the one-size-fits-all approach. Each scheme builds on the strengths of each sector, their production capabilities, and potential to become global champions.

Can PLI help India in pushing exports-led growth? How will the PLI schemes help integrate India into global value chain?

The scheme focuses on potential growth areas where India can penetrate global value chains. Sunrise sectors such as renewable energy, digital economy and electric mobility were selected among others. The total outlay of PLI scheme for 14 sectors is expected to be Rs. 1.97 trillion or $27 billion. Assuming an average incentive of 5 per cent, the total production is expected to be around $520 billion. This increased production will not just serve domestic markets, but also export markets. PLI scheme will enable India to build world class capabilities, globally competitive firms, with a firm footing in global value chain.

What has been the progress under the PLI scheme?

So far, the total investments committed under the PLI schemes amount to Rs. 2.54 trillion. In automobile and auto-component PLI scheme, investments worth Rs. 74,850 crores have been committed; mobile manufacturing has seen investments of Rs. 11,500 crore, and investments worth Rs 8,600 crore have been committed in food processing.

PLI scheme was first launched for mobile manufacturing, how has that fared?

About 60 per cent of the production in mobile manufacturing sector will be to serve export markets. Domestic value addition is expected to rise from the present levels of 15-20 per cent in the case of phones to 35-40 per cent.

This has been a phenomenal success story Today, Apple is manufacturing iPhones in India in through Wistron, Pegatron and Foxconn. Last year, we witnessed iPhones worth about Rs 10,000 crore being produced in India. This year, that number could be as high as Rs 50,000 crore. Industry estimates actually indicate that exports witnessed a steep increase of 75 per cent in just one year on account of the PLI scheme. We were actually able to meet almost 80% of our demand through domestic production. Now, we must push our limits further and establish ourselves as the mobile manufacturing capital of the world. We also constantly seek feedback to evolve these schemes to bring out multi-fold impact.

Has high mobile phone production increased the demand for semiconductors. Considering the global shortage, how should India respond to grow its own market?

The recently approved $10 billion incentive plan will develop a full-fledged semiconductor and display manufacturing ecosystem in India. By establishing industries right from the design stage to the standardized and marked packaged chips, India plans to become the next electronics factory of the world. Semiconductors itself is going to attract about $8.8 billion in terms of investments. As a consequence of higher production on account of PLI, the demand for chips is increasing and to tackle that, we have a scheme in place to ensure that we are able to meet that through semiconductor manufacturing in India. Over time, this will boost our production capabilities, establish quality and reliability, and make us a redoubtable manufacturer of mobiles, electronics, and chips.

How has been the progress of two rounds of PLI for white goods?

In the first round of PLI scheme, 44 companies, including Panasonic, Havells and Blue Star were selected. In the second round, about 19 companies such as LG, Wipro and Crompton Greaves have applied. Over time, we can expect that the domestic value added to increase by almost 60-70 per cent as a result of this scheme.

With robust manufacturing capabilities in place, the prices of white goods are expected to come down over time. We want to create an ecosystem in the country for the production of components for ACs and LEDs and supply them to the world.

What are the challenges associated with the design and implementation of PLI schemes today? How does the government intend to move forward?

For PLI, the key is to narrow down on the right target and incentives which will attract more manufacturers leading to higher output, value addition and exports. The government aims to constantly seek feedback and response to these schemes and evolve them accordingly over time. For instance, the application window was reopened in case of white goods to give another chance to prospective applicants. We started with PLI for mobiles and pharma in 2020 and have expanded it to 14 sectors. We will continue to watch the sectors carefully. Now, we need to localize capital equipment, modules, and component ecosystem further to increase the domestic value addition.