



INDIA'S PRODUCTION LINKED INCENTIVE SCHEME - A PRIMER

The **Indian government launched its \$26bn Production Linked Incentive (PLI) scheme** in FY2020/21 with the aim of boosting manufacturing and reducing imports. The purpose of the schemes is **to attract investments in key sectors**, incentivising foreign manufacturers to start production in India and domestic manufacturers to expand their production and exports, consistent with the government's **'Made in India'** strategy.

After a slow start, **the schemes have been extended to cover 14 sectors**, including autos, aviation, electronic systems, pharmaceuticals, telecoms and white goods, attracting investments totalling around \$6.5bn by the end of last year. Although other factors are also at play, some sectors for which PLI schemes exist have seen a significant increase in foreign direct investment inflows between FY21/22 and FY22/23, including drugs and pharmaceuticals (+46%), food processing industries (+26%) and medical appliances (+91%).

The PLI schemes are helping **to transform India's export basket from traditional commodities to high-value added products**, such as electronics and telecommunication goods. In the latter, the PLI scheme **has encouraged major smartphone companies to shift their suppliers to India**, resulting in more high-end phones being manufactured in the country. According to the government, the value addition in smartphone manufacturing is now around 20%, from negligible levels in 2014-15, which compares favourably with other countries such as Vietnam and China. **Total smartphones production was equal to around \$44bn** in FY22/23 (including \$11bn as exports), out of India's total \$101bn electronics production last year.

We believe that as companies reconsider their supply chains, India is being increasingly seen as a viable alternative. The geopolitical concerns around China are only going to accelerate this trend further in our view. **With a large, well-educated population, stable political climate, lower salary costs and supportive government policies, there is a huge opportunity for India to take a role in global manufacturing.** The parallel with Vietnam's success over the recent past is clear. The PLI schemes are expected to create millions of new jobs and increase domestic production value by hundreds of billions of dollars over the next few years.

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