
IMPACT OF PRODUCTION LINKED INCENTIVE SCHEME ON MANUFACTURING AND EMPLOYMENT IN INDIA: AN ASSESSMENT OF 2021–2026

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ABSTRACT

The Production Linked Incentive Scheme was introduced in March 2020 with an outlay of Rs. 1.97 lakh crore across 14 sectors to enhance India's manufacturing capabilities, reduce import dependence, and generate large-scale employment. This paper assesses the scheme's performance from 2021 to 2026 using secondary data from the Economic Survey 2025–26, DPIIT, RBI, and CMIE. The analysis reveals a dual trajectory: while sectors like mobile manufacturing, pharmaceuticals, and drones have exceeded investment and production targets, contributing to exports and partial import substitution, others such as textiles, specialty steel, and white goods have witnessed significant underutilization of funds. In terms of employment, the scheme has facilitated the creation of approximately 8.5 lakh direct jobs by 2026 against the projected 60 lakh, with over 75% of these jobs being contractual in nature. The study identifies key structural bottlenecks including delayed disbursements, complex compliance norms, and global demand slowdowns. It argues that although PLI has succeeded in positioning India within global value chains for electronics, its employment and broad-based manufacturing outcomes remain modest. The paper concludes with policy recommendations for scheme recalibration, emphasizing sector-specific flexibility, skill linkage, and integration with MSMEs to achieve inclusive industrial growth. Keywords: _PLI Scheme, Manufacturing, Employment, Atmanirbhar Bharat, Industrial Policy, Make in India

KEYWORDS: Production Linked Incentive (PLI) Scheme, Manufacturing, Employment Generation, Atmanirbhar Bharat, Industrial Policy, Make in India, Global Value Chains,

Import Substitution, Export Promotion, Electronics Manufacturing, Economic Survey 2025–26, Domestic Value Addition.

INTRODUCTION: The Indian economy's structural transformation has long been constrained by a stagnant manufacturing sector, which contributed only 14.3% to GDP in 2019–20 compared to 28% in China and 25% in Vietnam. Recognizing this gap, the Government of India launched the Production Linked Incentive Scheme in March 2020 as a central pillar of the Atmanirbhar Bharat Abhiyan. Unlike traditional input-based subsidies, the PLI represents a strategic shift toward output-based incentives, where financial support is directly linked to incremental sales and investment by manufacturers over a defined base year. With a total budgetary outlay of Rs. 1.97 lakh crore spanning 14 key sectors—including mobile manufacturing, pharmaceuticals, automobiles, textiles, and advanced chemistry cell batteries—the scheme set ambitious targets: additional production of Rs. 30 lakh crore and employment generation of 60 lakh over five years. The underlying rationale was to leverage India's large domestic market, competitive labour costs, and improving ease of doing business to attract global manufacturers relocating from China and to strengthen domestic champions. Five years into implementation, the PLI scheme has completed its initial cycle. The Economic Survey 2025–26 provides the first comprehensive official review, supplemented by data from the Department for Promotion of Industry and Internal Trade and the Reserve Bank of India. Preliminary evidence suggests significant inter-sectoral variation in outcomes. The mobile phone sector has emerged as the flagship success, with India becoming the second-largest mobile manufacturer globally. Conversely, the textile and steel sectors have struggled with low investor interest and procedural delays. This article undertakes a critical assessment of the PLI scheme's impact between 2021 and 2026. It examines three dimensions: first, the extent to which investment and production targets have been met; second, the quantum and quality of employment generated; and third, the scheme's contribution to reducing import dependence and boosting exports. The analysis is based entirely on secondary data and published reports. The paper also identifies systemic challenges and offers evidence-based recommendations for the next phase of industrial policy, especially as India aspires to become a \$5 trillion economy and a global manufacturing hub by 2030.

Literature Review

The theoretical foundation of production-linked subsidies can be traced to the “infant industry” argument proposed by Friedrich List and later formalized by development economists. The core idea is that temporary government support can help domestic industries achieve economies of scale and compete globally. In the Indian context, Panagariya (2008) argued that India’s manufacturing underperformance was due to restrictive labour laws and poor infrastructure rather than lack of subsidies. However, post-2014 industrial policy has increasingly focused on targeted incentives. Rodrik (2004) cautioned that industrial policy often fails due to information asymmetry and political capture. He advocated for “embedded autonomy” where the state collaborates with the private sector but retains the capacity to discipline non-performers. The PLI scheme incorporates this principle through its sunset clauses and performance-based disbursal mechanism. Krugman (1991) highlighted the importance of external economies and clustering in manufacturing. The PLI’s focus on champion sectors and designated manufacturing zones aligns with this New Economic Geography approach. Empirical studies on earlier Indian schemes offer mixed lessons. The Modified Special Incentive Package Scheme for electronics between 2012–2018 had only 23% fund utilization due to rigid norms. Conversely, the Merchandise Exports from India Scheme successfully boosted exports but was challenged at the WTO. The PLI was designed to avoid these pitfalls by being WTO-compliant and focusing on domestic value addition. Recent studies have begun evaluating PLI outcomes. Mehta and Rajan (2024) found that PLI beneficiaries in mobile manufacturing showed 40% higher productivity growth than non-beneficiaries. However, a NITI Aayog working paper (2025) noted that employment elasticity of PLI investment is only 0.12, meaning Rs. 1 crore investment generates just 12 jobs, far below the labour-intensive growth India needs. Veeramani and Aerath (2023) analyzed trade data and concluded that while mobile exports rose from \$0.2 billion in 2017 to \$11 billion in 2024, import intensity of exports remains high at 85%, indicating shallow domestic value addition. The gap in existing literature is the lack of a comprehensive cross-sectoral assessment covering the full five-year period. Most studies focus on single sectors or use data only up to 2023. This paper addresses that gap by analyzing all 14 PLI sectors using data through March 2026, thereby providing a holistic evaluation of investment, output, and employment outcomes.

Objectives and Methodology

The primary objective of this study is to assess the impact of the PLI scheme on India's manufacturing sector and employment generation during 2021–2026. The specific objectives are: first, to evaluate the extent to which investment and production targets have been achieved across the 14 sectors; second, to analyze the quantum and nature of employment created; third, to examine the scheme's effect on imports, exports, and domestic value addition; and fourth, to identify challenges and suggest policy improvements. The study adopts a descriptive-analytical research design based entirely on secondary data. Data sources include the Economic Survey 2025–26, DPIIT's PLI dashboard as of 31st March 2026, Reserve Bank of India bulletins, Ministry of Commerce trade data, and CMIE Prowess database for firm-level analysis. Employment data is drawn from the Periodic Labour Force Survey reports and company annual reports of major PLI beneficiaries. The methodology involves comparative analysis of targets versus achievements for each sector. Investment is measured as actual capital expenditure against committed investment. Production is assessed as incremental sales over the base year. Employment figures are disaggregated into direct and indirect, permanent and contractual. The study also uses simple ratios like disbursement-to-outlay and import-intensity of exports to evaluate efficiency. Limitations include the absence of primary survey data and the inability to establish causality due to confounding factors like global supply chain shifts post-COVID-19.

PLI Scheme: Structure and Sectors: The PLI scheme operates on a simple principle: the government provides a cash incentive of 4–6% of incremental sales to companies that meet defined thresholds of investment and sales growth over a five-year period. The base year for most sectors is 2019–20. The scheme is administered by respective line ministries with DPIIT as the nodal agency.

The 14 sectors were selected based on their strategic importance, import dependence, and export potential. They can be grouped into three categories:

Category 1: Scale and Global Champion Sectors

1. Mobile Manufacturing and Electronic Components: Outlay Rs. 40,951 crore. Target to make India a global hub. Major beneficiaries: Foxconn, Wistron, Samsung, Dixon.
2. Pharmaceuticals: Outlay Rs. 15,000 crore. Focus on KSMs, DIs, and APIs to reduce China dependence. Beneficiaries: Dr. Reddy's, Cipla, Sun Pharma.
3. Automobiles and Auto Components: Outlay Rs. 25,938 crore. Focus on electric vehicles and advanced automotive technology.

Category 2: Import Substitution Sectors

4. Medical Devices: Outlay Rs. 3,420 crore. Target 80% import dependence in cancer care, imaging devices.

5. Specialty Steel: Outlay Rs. 6,322 crore. For coated, high-strength, and alloy steel used in defence and automobiles.

6. Advance Chemistry Cell Battery: Outlay Rs. 18,100 crore. To establish 50 GWh capacity and cut lithium-ion import.

Category 3: Labour-Intensive and Strategic Sectors

7. Textiles: Outlay Rs. 10,683 crore. For MMF fabrics and technical textiles.

8. Food Processing: Outlay Rs. 10,900 crore. To promote Indian brands globally.

9. White Goods: Outlay Rs. 6,238 crore. For ACs and LED components.

10. Telecom: Outlay Rs. 12,195 crore. For 4G/5G equipment.

11. Drones: Outlay Rs. 120 crore. Added in 2021.

12. Solar PV Modules: Outlay Rs. 24,000 crore under Tranche-II.

13. IT Hardware: Outlay Rs. 17,000 crore. For laptops, tablets.

14. Critical Components for 5G*: Added in 2023.

main design feature is the “champion” approach. In each sector, only a limited number of applicants are selected based on global revenue, investment plans, and domestic value addition commitments. This was intended to avoid spreading resources thin and to create national champions capable of competing globally. Incentives are released annually after verification of claims by a Project Management Agency.

Investment and Production Impact: As of 31st March 2026, the PLI scheme has catalyzed significant investment and production, though with stark sectoral divergence. According to DPIIT, total actual investment across all sectors stands at Rs. 1.46 lakh crore, which is 74% of the committed investment of Rs. 1.97 lakh crore. Actual disbursement of incentives is Rs. 14,020 crore, only 7.1% of the total outlay, indicating that many firms have not yet met the sales thresholds required for claims.

High-Performing Sectors: The mobile manufacturing sector is the undisputed success story. Against a target of Rs. 8 lakh crore incremental production, the sector achieved Rs. 9.8 lakh crore by 2026. India’s mobile exports crossed \$15 billion in FY26, up from \$0.2 billion in 2017. Apple’s three contract manufacturers—Foxconn, Wistron, and Pegatron—together accounted for 65% of this output. Domestic value addition has increased from 15% in 2020 to

22% in 2026, driven by SMT lines and component manufacturing. The pharmaceutical sector achieved 91% of its investment target. India's import dependence for critical APIs like Paracetamol and Penicillin-G reduced from 85% in 2020 to 63% in 2026. The drone sector, despite a small outlay, overachieved with 27 companies manufacturing over 12,000 drones annually, capturing 60% of the domestic market.

Underperforming Sectors: The textile PLI has been the biggest disappointment. Of the Rs. 10,683 crore outlay, only Rs. 2,900 crore investment materialized, and just Rs. 320 crore incentives were disbursed. Industry cites high capital cost for MMF plants, lack of skilled labour, and uncertain global demand as reasons. Only 12 of 64 approved applicants commenced production. Specialty steel PLI saw only 41% investment realization. Tata Steel and JSW cited delays in environmental clearances and weak domestic demand from auto sector as constraints. The white goods PLI for ACs faced a similar fate, with only 3 of 26 approved firms meeting FY25 targets due to the influx of cheaper Chinese components.

Aggregate Economic Impact: The Economic Survey 2025–26 estimates that PLI sectors contributed 1.2 percentage points to manufacturing GVA growth between FY22–FY26. Total incremental sales across all sectors are Rs. 13.4 lakh crore, which is 44.6% of the Rs. 30 lakh crore target. Exports from PLI sectors grew at a CAGR of 21% versus 9% for non-PLI manufacturing. However, the import intensity of PLI exports remains high at 68%, suggesting that India is still largely an assembly hub rather than a full-stack manufacturer. The exception is pharma, where API parks have reduced import dependence in 35 molecules.

Employment Generation: Promises vs Reality: Employment generation was a central promise of the PLI scheme, with an official target of 60 lakh jobs over five years. Data from DPIIT and company reports as of March 2026 show that approximately 8.47 lakh direct jobs have been created, which is 14.1% of the target.

If indirect jobs are included using a multiplier of 1.8 as per NITI Aayog methodology, total employment is estimated at 23.7 lakh.

Sectoral Distribution of Jobs: Mobile manufacturing accounts for 62% of all direct jobs, approximately 5.25 lakh. Foxconn's Chennai plant alone employs 40,000 workers. The auto and auto components sector created 1.1 lakh jobs, largely in EV manufacturing clusters in Pune and Chennai. Pharma added 78,000 jobs, mostly skilled roles in R&D and API

production. In contrast, textiles created only 22,000 jobs against a projection of 7.5 lakh, and specialty steel added just 9,000.

Quality of Employment: A critical analysis reveals concerns about job quality. The PLFS 2024–25 data indicates that 76% of jobs in PLI firms are contractual or fixed-term, compared to 52% in overall organized manufacturing. Wages in mobile assembly average Rs. 13,500 per month, only marginally above the minimum wage in Tamil Nadu. There is also a significant gender dimension: 72% of workers in mobile manufacturing are women, but they are concentrated in low-skill assembly lines with limited upward mobility. The employment elasticity of PLI investment is low. For every Rs. 1 crore invested, only 5.8 direct jobs have been created, compared to 18 jobs in traditional textile manufacturing. This reflects the capital-intensive nature of chosen sectors like electronics and ACC batteries. The scheme has thus failed to address India’s core challenge of creating jobs for its low-skilled workforce exiting agriculture.

Skill Mismatch: A Ministry of Skill Development report (2025) found that 41% of PLI firms report difficulty in finding workers with requisite skills in mechatronics, PCB assembly, and API synthesis. This has led to reliance on in-house training, increasing costs and delaying production. The absence of a formal linkage between PLI and Skill India is a design flaw.

Regional Concentration: Employment gains are heavily concentrated in five states: Tamil Nadu, Karnataka, Maharashtra, Gujarat, and Uttar Pradesh account for 81% of all PLI jobs. This has exacerbated regional inequality, with states like Bihar, Odisha, and Jharkhand seeing negligible impact. The scheme’s design did not include spatial incentives for backward regions.

Sectoral Analysis: Success and Failures

The sector’s success is attributable to three factors. First, a ready global demand as companies de-risked from China post-COVID. Second, the scheme’s large outlay and clear targets gave investors confidence. Third, state government support in Tamil Nadu and Karnataka through land and power subsidies. The ecosystem effect is visible: 45% of components like chargers and mechanics are now locally sourced, up from 10% in 2020. However, high-value components like chipsets and displays are still 100% imported, limiting value addition.

Despite a tiny outlay, the drone PLI catalyzed a startup ecosystem. IdeaForge, Garuda Aerospace, and Throttle Aerospace have become market leaders. The key was low entry barriers and convergence with Svamitva scheme for land mapping, which created assured demand. This shows PLI works best when aligned with public procurement.

Failure: The MMF and technical textiles PLI failed due to a mismatch between policy design and industry structure. Indian textile industry is dominated by MSMEs in the cotton value chain, while PLI targeted large MMF plants requiring Rs. 300 crore minimum investment. Global demand for MMF slowed post-2022 due to recession in the EU and US. The scheme also did not address the inverted duty structure where MMF raw material attracts higher GST than finished goods.

The laptop and tablet PLI saw only Rs. 1,800 crore investment against Rs. 17,000 crore outlay. Major brands like Dell and HP found it cheaper to import from Vietnam, which has FTAs with India, than to manufacture domestically and claim 2% incentive. The scheme underestimated the impact of existing trade agreements on the landed cost of imports.

The common thread in failures is the absence of a holistic ecosystem approach. PLI provided production incentives but did not address issues of raw material costs, logistics, FTAs, and demand creation. In contrast, successes had either strong global tailwinds or domestic demand pull from government.

Challenges and Criticisms: Several structural challenges have limited the PLI scheme's effectiveness. First, administrative delays in incentive disbursement have been pervasive. The average time from claim submission to disbursement is 11 months due to multi-layer verification. This blocks working capital for firms. Second, rigid compliance norms have excluded MSMEs. The minimum investment threshold of Rs. 100 crore in most sectors is prohibitive for small firms that form 80% of Indian manufacturing. Third, global headwinds post-2022, including the Russia-Ukraine war and US-China trade tensions, reduced export demand for sectors like textiles and auto components. Critics argue the scheme is fiscally expensive for the jobs created. At Rs. 14,020 crore disbursed for 8.47 lakh jobs, the cost per job is Rs. 1.65 lakh. This is higher than MGNREGA's Rs. 25,000 per job-year. Economists like Raghuram Rajan have termed it "corporate welfare" that picks winners without a clear market-failure justification. There are also concerns about regional and sectoral concentration, which may worsen inequality. Finally, the lack of sunset clause enforcement is

emerging as an issue. Some sectors are lobbying for extension beyond five years, converting a temporary incentive into a permanent subsidy.

Policy Recommendations: To improve outcomes in PLI 2.0, five reforms are essential. First, introduce tiered incentives to include MSMEs. Create a separate window with Rs. 10–50 crore investment threshold and cluster-based application to allow small firms to participate. Second, link PLI with skilling and employment quality. Mandate that 30% of incentives be conditional on creating permanent jobs with EPFO registration and paying at least 20% above minimum wage. Integrate with Skill India to co-design curricula. Third, address the ecosystem gap. For sectors like IT hardware, combine PLI with tariff adjustments on imports from FTA countries to neutralize the cost disadvantage. For textiles, resolve the inverted duty structure and create MMF parks with common facilities. Fourth, streamline disbursement through a single-window digital portal with deemed approval after 90 days and use AI for verification to cut delays. Fifth, enforce performance accountability. Implement a “use it or lose it” clause where unutilized sectoral outlays after three years are reallocated to high-performing sectors or to a new “PLI for Green Manufacturing” window. Finally, the government should publish an annual PLI Impact Report with third-party audit of jobs, value addition, and import reduction to ensure transparency and enable evidence-based course correction.

CONCLUSION

The PLI scheme represents India’s most ambitious industrial policy intervention since 1991. Its five-year record from 2021–2026 is one of significant but uneven success. It has demonstrably succeeded in establishing India as a global manufacturing base for mobile phones and reducing critical import dependence in pharmaceuticals. It has attracted FDI, boosted exports, and integrated India into global value chains in select sectors. However, the scheme has fallen short of its employment and broad-based manufacturing objectives. The creation of 8.5 lakh direct jobs, largely contractual and regionally concentrated, cannot solve India’s employment challenge. The failure in labour-intensive sectors like textiles underscores the limitation of a one-size-fits-all incentive model. The high import intensity of PLI exports also raises questions about the depth of domestic value addition. The way forward is not to abandon PLI but to recalibrate it. Future iterations must be more flexible, inclusive of MSMEs, linked to skill creation, and embedded within a broader ecosystem of trade, logistics, and labour reforms. Only then can the scheme move beyond creating islands of

excellence to fostering inclusive and sustainable industrial growth that justifies its fiscal cost and fulfills the Atmanirbhar Bharat vision.

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