

U.S.-India Insight

VOLUME 16 | ISSUE 2 | MARCH 2026

Indian States China + 1 Strategy: Aim Lower to go Bigger



State governments have critical roles to play in helping India build a better business environment. In 2025, most state policies focus on specific sectors like electronics or data centers. In rarer cases, reforms are more broad-based, easing the business environment across industries around topics like land and labor. More states are “getting in the game” to grab a share of global investment in emerging technologies. But China+1 should not exclusively focus on emerging technology. To create employment and exports, Indian states should spend 2026 focused on building investments in basic industries like textiles, paper mills, food processing, and chemicals.

A little over a decade ago, our team began preparing and sending a weekly digest of significant state-level business reforms. You can find the back editions [here](#). Our team reported on 114 significant reforms by state governments in India in 2025. Rajasthan led the pack with 12 significant reforms, followed by Madhya Pradesh (10), Assam and Odisha (9 each), and Andhra Pradesh, Gujarat, Karnataka, and Uttar Pradesh (8 apiece).

Looking at the focus of these reforms, some apply quite broadly across a range of industries like relaxing provisions of the Shops and Establishments acts (11 states), innovation/startup policies (7 states), or strengthening the states’ overarching industrial and factories policies (6 states and 5 states, respectively).

When it comes to sectoral policies, 50 of these state reforms focused on new and emerging technology areas like renewable energy, electronics components, artificial intelligence, global capability centers, and similar sectors. By contrast, only 17 reforms focused on sectors considered high potential for employment creation and, in many cases, exports, such as textiles, footwear, tourism, and minerals development.

The lure of landing investments in emerging technology groups makes sense on two counts. First, since they are “sunrise,” India’s [lack of specialized labor and supplier ecosystems](#) may be less of an obstacle. And second- these sectors are significant contributors to [India’s goods import bill](#). Consequently, building domestic producers can reduce imports and potentially increase exports—if successful.

On the flip side, India’s own neighbors like Sri Lanka and Bangladesh have shown that prioritization of basic industries like textiles has contributed heavily to exports and job creation. While India’s [manufacturing-to-GDP ratio](#) remains stuck in the 13% to 15% range, Sri Lanka is at 18 percent and Bangladesh is at 22 percent.

India’s decision to pursue trade agreements almost exclusively with developed nations indicates the understanding that India’s strength lies in labor intensive industries. Recent national policies like finalizing the [Industrial Relations Code](#), rationalizing the [Goods and Services Tax \(GST\)](#), and [Production Linked Incentive \(PLI\)](#) programs should help.

India need not necessarily choose between emerging technology and basic industries and services. India is a continent unto itself. Some states with stronger workforces, ports, and relatively good infrastructure have won significant investments in sectors like mobile phones, semiconductor production, and data centers. But for other states that continue to lag on development and manufacturing indicators, a significant push to develop basic industries may be a sensible approach.

We are hoping 2026 proves to be a banner year for India’s overall reform process. Stoked by global instability, buoyed by significant trade agreements, and unencumbered by electoral politics (once the [5 state elections](#) in the spring have concluded), forces are aligning for India to step up significantly. Success most likely requires a strong push into job-creating basic industries. Realizing this goal requires more states doing their part to deregulate and support a wider range of industries.

KEY DATA

+16%

U.S.-INDIA GOODS TRADE, 12-MONTH

+8.5%

FOREIGN DIRECT INVESTMENT, 12-MONTH

(-) \$6.1 bn

FII ASSETS NET FLOWS, 12-MONTH