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Potted Plants are Pretty but the Jungle Teems with Life



At both the Union and state level, India's policy reform priorities tend to focus around a "potted plant approach" to growth - creating special incentives for targeted sectors. Many economies are selectively taking this approach stemming from recent issues like China export embargoes and Covid-related supply chain constraints. Still, such interventions should be selective and strategic. At both the Union and state level, Indian policymakers should consider a recalibration away from sector-specific incentives towards economy-wide reforms.

This potted plant approach presumes governments have sufficiently strong predictive abilities to make these bold interventions. Presumably, the economic bump will be faster, too—with monetary and non-monetary incentives to make specific investments within a defined period of time. Certainly, some industrial areas like the development of critical minerals cannot rely on imports from a strategic rival like China. Marshaling resources and choosing champions can be beneficial in sectors where unique leadership is required like building advanced artificial intelligence models or investing in related sectors.

However, expanding this model to dozens of sectors starts to mimic the failures of the Soviet and early Indian models for development- misallocation of capital, low productivity growth, and the stifling "permanence of protection." Companies in these sectors will try to game the system to capture benefits and try to blur the lines on what is covered and uncovered through these incentives—with success often an attribute of political connections.

The potted plant approach also endangers the massive co-benefits of growing sectors that do not appear complementary at first glance. One example is the growing convergence of technology and textiles. New generations of garments could have built-in sensors to track health and other factors. Success requires being pretty good in both electronics and textiles. Another example is India's fast-growing set of policy incentives for the build-out of data centers. Considering the components of a data center build, this effort could also unlock greater local investment in strongly related industries like efficient cooling and industrial water systems purpose-built for data centers.

Enterprising companies, either Indian or multinational, would be smart to build these aligned industries in proximity to their customer base. But this requires overcoming the known industrial hurdles in India—stifling labor regulations, opaque land acquisition, high cost/ low quality power, etc.

The costs of these hurdles are not offset by targeted incentives related to the “prime target”- in this instance, a data center.

Examples of these potted plant policies at the Union Level include:

- National Green Hydrogen Mission
- PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM-E DRIVE)
- India Semiconductor Mission
- National Solar Mission
- SAGARMALA ports and shipping modernization
- National Quantum Mission
- IndiaAI Mission
- National Policy on Biofuels
- Production Linked Incentive (PLI) schemes across 14 sectors

Compare that to the reforms the Union government has unleashed in the last five years that would improve the general business environment. This list is far smaller, and in two instances- is cleaning up “unfinished business” from earlier reforms:

- Insolvency and Bankruptcy Code Amendments
- Labor Regulations (too small)
- Rationalization of GST
- Mandate “regulatory impact assessment” (RIA) for government bodies making legislations, policies, executive orders, actions, or regulatory instruments
- The end of retrospective taxation of cross-border investments

Similarly, at the state level, we reviewed all the key reforms we track through our Indian States Weekly digest over the last year. At this level, too, it is clear- states prioritize incentive programs specific to individual industries, as opposed to wider reforms that will help all sectors grow.

- **Land:** In all of 2025, only 3 states made meaningful changes to land acquisition (Arunachal Pradesh, Karnataka, and Punjab), while 5 states launched targeted incentives for AI-related investments.
- **Water:** Only a single state (Rajasthan) made a meaningful change to state-level water-sanitation policies. However, five states launched “global capability center (GCC)” policies.
- **Electricity:** While some electricity utilities have made incremental operational progress, no state undertook a significant new reform, though Chandigarh did finally move forward with their long-awaited privatization. On the other hand, four states launched space commercialization policies.
- **Tax Credits for Multi-Sectoral Functions like Research & Development (R&D):** As per the [World Bank](#), India only spends about two-thirds of a percent of Gross Domestic Product on R&D. This is well below the level in Malaysia, Brazil, Turkey, and other competing markets.

The main exception is labor regulation, where 11 states relaxed their “Shops & Establishments” laws as part of the national enactment of the long-awaited “Industrial Relations Code.”

The “potted plant” versus “unleash the jungle” is not a black and white choice. Recent supply chain disruptions, either due to weather, pandemic, or security, require countries to ensure reliable access to certain products. But for India to truly unlock job-creating growth, choosing a widening range of sectors that are “winners” while allowing other sectors—including ancillary sectors—to languish will stifle the larger growth opportunity.

KEY DATA

+12%

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

+13%

FOREIGN DIRECT
INVESTMENT, 12-MONTH

(-) \$17 bn

FII ASSETS NET FLOWS, 12-
MONTH