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India Strategy

India Strategy: Open Letter to the Prime Minister

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In 2019, after elections and against a backdrop of slowing growth, we wrote an open letter to the incoming PM setting out six priorities to make India structurally stronger. That was a different world: pre-COVID, pre-Gen AI, with trade integration largely intact and de-globalisation still an academic concern. Many of the underlying constraints that have historically limited India's rise remain unresolved and if these are not addressed, India risks under-delivering on its potential. Against this backdrop, we return to that format in this report: a candid letter to the Prime Minister structured around eight critical themes, and, by extension, a roadmap for investors to think about India's next decade of risk and opportunity

To,

The Honorable Prime Minister,

South Block, Raisina Hill

New Delhi, 110011

Dear Mr Prime Minister,

The last time we wrote a letter to you was in 2019. Since then, India has moved up the global GDP league tables and, made the correct choice with focus on productive capital expenditure instead of subsidies. That shift has underpinned a phase of solid macro stability and healthy earnings growth. But if the last six years demonstrate what India can do when policy is aligned, they also carry a risk: the temptation to extrapolate recent success and underplay how much further there is to go. The global cycle is turning faster, supply chains are being redrawn, and India still trails key peers on physical infra, innovation capacity and preparedness for the next technology wave. A central theme of our 2019 note—innovation as a growth driver—has, in this environment, moved from being desirable rhetoric to a hard precondition.

This was the theme for the Bernstein India Conference in March 2026, where we focused on companies building new products and platforms rather than just scaling existing models. The discussions were encouraging: there is genuine entrepreneurial depth and a widening set of "from-India", to "for-the-world" stories. But they also brought one uncomfortable fault line into sharper focus: employment.

For two decades, India's services engine has been powered by a large, reasonably priced, English-speaking talent pool working in IT services, GCCs and BPOs. That 10-15 million strong workforce has anchored the aspirational middle class—buying homes, taking flights, driving consumption. Gen AI now challenges that template. A meaningful share of the roles that lifted this cohort are directly exposed to automation, while most of the surplus value in AI—models, platforms, IP—remains concentrated in the US and, to an extent, China. The risk is that India becomes a user of these technologies without capturing a commensurate share of the upside.

Continued on page2.

DETAILS

Continued from page1…

Can manufacturing absorb the slack? At the current trajectory, it is unlikely to do so at scale. Private capex remains selective, with balance sheets and investors still rewarding margin resilience over aggressive capacity build-out. The “China+1” narrative is real, but translating intent into plants, suppliers and jobs in a more protectionist world has proved far harder than early headlines implied. Surplus labour in agriculture still struggles to find productive alternatives, and too many new entrants to the workforce end up in low-end urban services or precarious self-employment.

Ultimately, where and how a country deploys its people is what defines its long-term trajectory. India now faces a stark question: does the next leg of our growth story create more engineers, product builders and innovators, or does it mostly create more drivers, delivery staff and domestic help? The answer will determine whether India’s rise remains a story of potential—or becomes one of realised capability.

We discuss the critical areas of focus and possible solutions to recharge the India story and move it away from a low-end labour arbitrage model to a higher productive track.

AGRICULTURE: BREAKING THE LOW-PRODUCTIVITY FARM TRAP

Agriculture is perhaps the clearest example of this structural inertia. Nearly 42–45% of India’s workforce continues to depend on a sector that contributes only ~15–16% of GDP. Average landholdings remain below 1.0 hectares, close to half of cultivated land is still dependent on monsoons, and policy responses continue to rely on loan waivers and input subsidies. These are not solutions; they are recurring responses to a system that has not been reformed. The rollback of the farm laws has made future reform more difficult, but it has not made it any less necessary. There is no alternative but to restart this process with a more calibrated approach. Irrigation must be scaled up meaningfully to reduce weather dependence. Capex to physical capacity conversion in such projects need to be monitored more aggressively to disallow leakage of funds. Monsoons are expected to be below trend this year - raising the usual risks to farm incomes and broader inflation. Input subsidies on power and fertilizers, now costing Rs3-4 trillion annually should be phased down, while ensuring that farmer incomes are protected through higher and more predictable procurement prices. Subsidies, where necessary, should move to post-procurement transfers to avoid distorting input use and retail prices. At the same time, India continues to lose 5–15% of agricultural output due to inadequate storage and logistics. Investment in agri-infrastructure is not incremental reform—it is central to income stability and food efficiency.

ENERGY: FIXING POWER, CUTTING OIL DEPENDENCE

Energy is another area where contradictions are becoming harder to ignore. India is encouraging investments in data centers and advanced manufacturing, yet reliable power supply remains inconsistent, and distribution companies continue to accumulate losses exceeding Rs 5-6 trillion. Industrial users bear a disproportionate burden through cross-subsidization, effectively funding inefficiencies elsewhere in the system. At the same time, India imports ~88% of its crude oil, with transportation accounting for over half of demand. This is a strategic vulnerability. The transition to electric mobility should have been accelerated more than a decade ago; instead, policy hesitation and industry resistance delayed progress, allowing global supply chains—particularly in China—to scale up and control capacities. Continuing on the current path risks locking India into technological dependence once again, however it is a better strategic choice than depending on crude oil. A clear phase-out timeline for internal combustion engine vehicles is now necessary. Incentives should shift away from production-linked benefits for capital-rich incumbents toward demand-side support that allows new entrants to compete, provided they meet localization thresholds. Auto OEMs do not need PLI - they are cash-rich and should be held responsible for driving the transition - and in any case even the leading OEMs are only purchasing battery packs/cells from China instead of investing in R&D and capex. The government should consider taking stakes in cash-rich companies who solicit PLI in the future. A gradual increase in taxes on ICE vehicles, alongside stronger incentives for EV adoption, would create a credible transition pathway. Electrification should also extend to household energy use, particularly cooking, to reduce reliance on imported LPG. Energy security cannot be achieved without reducing both import dependence and structural inefficiencies in the power system.

ARTIFICIAL INTELLIGENCE: FROM AI USER TO AI DRIVER

In artificial intelligence, the risk is not visible today, but it is likely to be profound over time. India is positioning itself as a hub for data centers, but this risks overestimating the value captured domestically. A significant portion of data center investment is import-intensive, and global AI workloads are unlikely to shift materially due to latency and regulatory constraints. More importantly, India does not own frontier AI models, unlike the US and China. This is not accidental—it reflects the absence of

first-generation technology platforms historically. If Indian data continues to be used to train global models without building domestic capability, India risks becoming a permanent consumer in the AI economy. The assumption that application-layer innovation alone will be sufficient underestimates the importance of control over foundational technologies. Most of the applications will eventually be captured by the US tech companies through pricing and platform offerings, leaving only specialized AI models with unique data sets to thrive. India's IT services and BPO sectors, which has been a key driver of income mobility is considered at risk as AI models evolve - timeframes of impact may vary but risk appears inevitable. Policy must therefore take a more strategic view—supporting domestic development of foundation models, building compute capacity, and ensuring that data governance frameworks prioritize national value creation. China's development of its tech Industry was through protection. India should follow this route for all newer tech areas. Any global tech company offering AI models should to pushed to list in India with half the value shared with the public. We are not advocating the typical Indian origin ownership rule, as that is misused through proxies. Waiting for global incumbents to scale and then attempting to regulate them is unlikely to be effective.

MANUFACTURING: MOVING BEYOND LATE-ENTRY INDUSTRIALISATION

Manufacturing reflects a similar pattern of intent without adequate depth. While initiatives such as PLI have created momentum, manufacturing's share of GDP remains ~16-17%, and employment continues to be concentrated in low-productivity informal services. India's limited gains from the China+1 shift highlight the time required to build capabilities, but also the cost of delayed action. Supply chains remain shallow, talent in advanced manufacturing is constrained, and execution timelines are often slower than competing economies. Even in strategic sectors such as EVs, core components like battery cells—accounting for 30-40% of costs—are largely imported. This is not a temporary gap; it reflects structural dependence. India cannot continue to enter industries decades after global leaders and expect different outcomes. The approach needs to shift toward early identification of emerging sectors—such as, automation, robotics, advanced materials, AI-integrated manufacturing—and committing capital and policy support before global supply chains are fully formed. Without this, the cycle of late entry and prolonged catch-up will persist. Celebrating incremental gains in low-value segments will not change India's position in global manufacturing. This required risk capital and a more organized approach to identifying opportunities. Niti-Aayog has been doing some progress on that front - but capability building is required in such institutions and more importantly - theory to execution needs a more comprehensive organisation with adequate abilities to make decisions on funding.

RAILWAYS AND TRANSPORT: DESIGNING AN INDIA-FIRST TRANSPORT MODEL

Infrastructure priorities also warrant reassessment. India has placed significant emphasis on aviation, despite having limited domestic manufacturing capability in that sector, while underinvesting in railways where it has a clear comparative advantage. The pace of high-speed rail (>300km/hr speeds) development remains slow, with only one major bullet train project underway, despite India having both the financial capacity and engineering base to build multiple corridors connecting key economic centers. At the same time, large public expenditures—such as the $15bn+ annual allocation to employment guarantee programs are not creating relevant assets with leakages common and construction value addition being low. Redirecting this toward national infrastructure projects could generate both employment and long-term productivity gains. India can fund one new bullet train project every year with this funding.

India still lacks adequate mass transport systems in most cities and what we have are placeholders with one or two lines developed and then decades of no further developments. For long distance transport India took the easier route of depending on aviation. China and Japan both understood the need for high speed Rail ecosystems. Air travel is capital-intensive, fuel-intensive and viable only on thicker, higher-income corridors; more importantly every element of cost structure is imported. The policy conclusion is straightforward: India needs to design for its own constraints rather than inherit somebody else's transport model. Within cities, that implies high-quality mass transit—denser metro networks, dependable bus systems, and a stronger emphasis on maintaining and upgrading existing road stock instead of treating new road length as the primary metric of progress. Across cities, it points to a bigger role for rail: faster, more frequent, electrified services along corridors where the basic right-of-way and station infrastructure already exists, and where shifting demand from road and air meaningfully lowers energy use and import dependence. We had flagged this direction of travel in 2019; the urgency is higher now. If capital allocation continues to favour cars and planes over metros, buses and rail, India risks hard-wiring a transport system that is congested, expensive to run, and exclusionary for a large share of its citizens.

CASH TRANSFERS AND SUBSIDIES: WELFARE AT THE COST OF CAPEX?

The other emerging theme of subsidies seeing a renewed focus, where a small productive group of taxpayers is used to provide cash to the broader population to win votes either reflects the ills of democracy or the economic failures of the nation. Inability to provide adequate jobs and social security is leading to this situation. State-led cash transfer schemes have scaled so fast that they are now starting to reshape fiscal priorities, and not always in ways that help growth. Unconditional transfers to women

alone now run in roughly a dozen–plus states, with total annual outlays of about Rs1.7-2.5 trillion, or ~0.5% of GDP. In Madhya Pradesh, Ladli Behna pays Rs1,500 a month to around 13 million women; over a full term this adds up to several hundred billion rupees. Maharashtra's scheme, launched later but covering roughly 25 million women at similar payouts, is of comparable scale. In Bihar, pre-election transfers to women in 2025 were estimated at about Rs125 bn in just a few weeks. Put together, just these cash schemes across states are now in the same fiscal ballpark as some of India's largest social-sector programmes. There are several such schemes directed at various stakeholders. That is money which could otherwise be compounding in hard infrastructure, urban capacity, human capital or R&D.

It is fair to say these schemes are not pure "freebies". Evidence from India and elsewhere shows that well-designed cash transfers can lower vulnerability, smooth consumption, and they do boost local demand in the short term. The issue is not that they do nothing; it is that, for an investment-starved emerging economy, it is a very expensive way to buy growth. A rupee locked into broad, politically timed cash schemes is a rupee not building roads, logistics, irrigation, power distribution, public transport, schools or hospitals—areas where the multipliers are higher and the productivity gains more durable. When these schemes start to absorb 2–3% of GSDP in some states, they inevitably squeeze capex, narrow fiscal space and, if supply does not keep up, add to inflation risk.

This is not an argument to scrap cash transfers. Targeted, time-bound support will always be needed for pockets of distress or major shocks. The concern is about making large, unconditional, election-synchronised transfers a permanent feature of state budgets. If that happens, we risk locking into a low-productivity equilibrium where a rising share of taxes funds consumption today rather than capabilities for tomorrow. Beyond a point, that could quietly cap how far India can climb on per capita income, even if headline GDP growth looks respectable

R&D AND INNOVATION: AMBITION WITHOUT ADEQUATE INVESTMENT

In research and innovation, India's ambitions remain ahead of its investments. R&D spending at ~0.6–0.7% of GDP is well below global benchmarks. Innovation ecosystems require sustained capital, high-quality talent, and institutional rigor. This includes openness to global expertise and a sharper focus on merit-based hiring of both students and professionals within leading educational and research institutions. The social-based induction with dilution of merit is hollowing institutions. If one thinks that talent and merit are not required and vote banks need to be prioritized, it will remain a low-income country depending on US and China for technology. Without strengthening these foundations, aspirations in semiconductors, AI, and deep technology will remain constrained, regardless of policy intent.

TAXATION AND STATE CAPACITY: HIGH TAXES, WEAK PUBLIC SERVICES

Finally, the issue of taxation and public service delivery reflects a widening disconnect. India's tax burden is not low, yet the quality of public goods—healthcare, education, urban infrastructure—remains weak in most cities. Public health spending at ~2% of GDP and education at ~3% remain below what is required for a country of India's scale. Urban challenges, including housing shortages in cities such as Mumbai, continue to highlight execution gaps. At the same time, informal transactions and cash usage persist despite progress in digital payments. Addressing this requires more than incremental measures. A decisive push toward formalization—potentially including a phased reduction in high-value currency denominations to discourage cash-intensive transactions can accelerate transparency. How about only keeping a Rs10 note and phasing out of all other denominations in another 5 years. Broadening the tax base by removing exemptions, including for economically significant but currently untaxed institutions such as certain political, religious, and sporting bodies, would improve equity and create room for lower rates. Tax compliance ultimately depends on trust, and that trust is built when taxpayers see consistent improvements in public services.

India has, for decades, chosen gradualism. That approach delivered stability, but it has also resulted in repeated cycles of delayed reform and missed opportunities—from manufacturing to electronics to clean energy. In several emerging areas, including AI and advanced manufacturing, the risk is that this pattern repeats itself once again. The cost of delay is no longer just slower growth—it is long-term dependence.

India does not lack capital, talent, or ambition. What it requires now is a sharper willingness to take difficult decisions early, rather than defer them. The window to act is still open, but it is narrowing.

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