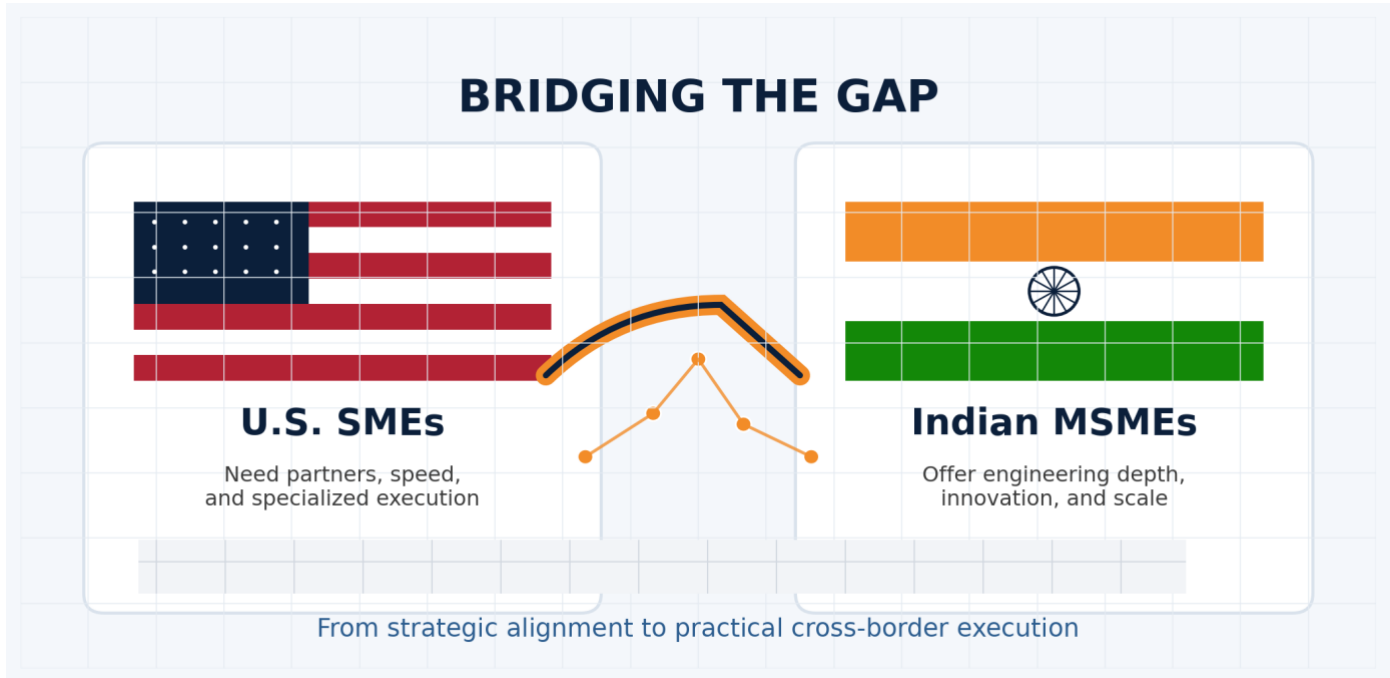


BRIDGING THE GAP

Why Small and Medium Enterprises in the United States and India Struggle to Collaborate Despite Strategic Bilateral Initiatives



Custom visual: U.S. and Indian SMEs need a trusted execution bridge to translate strategic alignment into practical collaboration.

Core Thesis

The U.S.-India collaboration opportunity is no longer limited by intent. It is limited by operational know-how, trust, partner vetting, compliance navigation, financing access, and execution governance.

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Executive Summary

The United States and India have significantly strengthened their strategic and economic partnership over the last decade, particularly in defense innovation, advanced technology, manufacturing, and startups. Initiatives such as INDUS-X and India's iDEX have created frameworks to encourage collaboration between startups, innovators, and private-sector enterprises from both countries.

Despite this momentum, small and medium enterprises (SMEs), startups, and MSMEs in both countries continue to face substantial barriers in establishing meaningful business partnerships. Interest remains high, but practical collaboration is often limited by gaps in market knowledge, regulatory understanding, financing access, trust-building mechanisms, and operational support.

This article examines the structural reasons behind this disconnect and proposes actionable solutions to improve cross-border SME engagement between India and the United States.

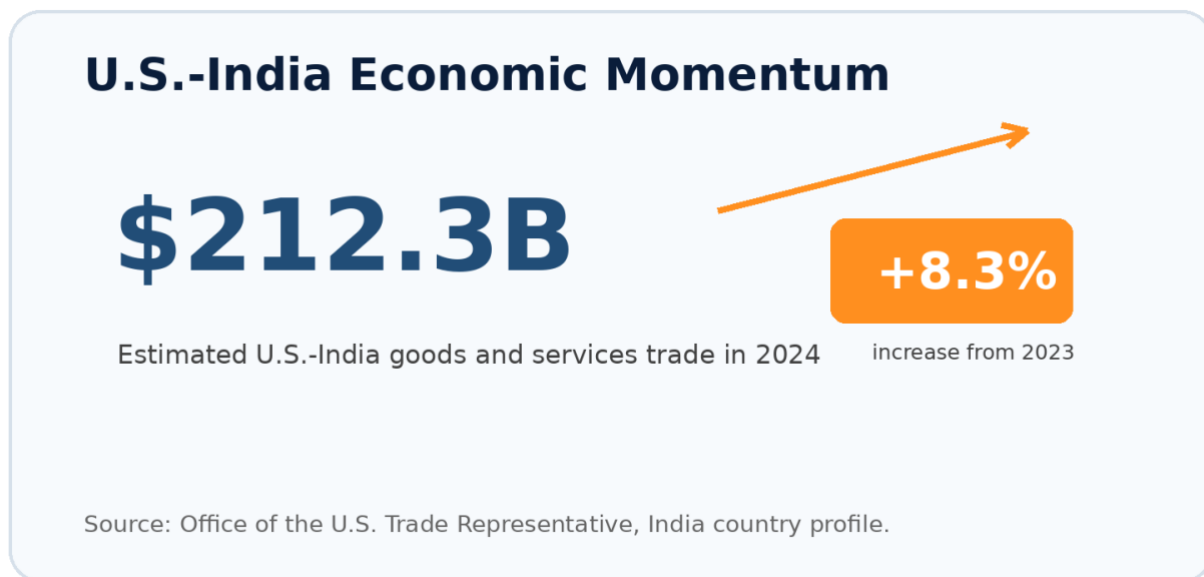


Figure 1. Macro-level U.S.-India trade momentum is strong, but many SMEs still struggle to translate interest into executable projects.

1. Strategic Alignment Is Strong, but SME Execution Remains Weak

India and the United States are increasingly aligned across defense, semiconductors, artificial intelligence, aerospace, cybersecurity, clean energy, and advanced manufacturing. Governments on both sides recognize that innovation ecosystems - especially startups and SMEs - are critical drivers of economic growth and technological competitiveness.

Large corporations often possess the legal, financial, and operational capabilities necessary to navigate international partnerships. SMEs, however, rarely have comparable resources, even though they are often more innovative and agile.

As a result, many promising U.S. and Indian SMEs express interest in working together but fail to convert opportunities into sustained business relationships.

2. Key Bilateral Innovation Initiatives

INDUS-X

INDUS-X, the India-U.S. Defense Acceleration Ecosystem, was launched to deepen cooperation between the defense innovation ecosystems of India and the United States. The initiative is designed to connect defense companies of all sizes, startups, incubators, accelerators, investors, universities, and government stakeholders.

- Connect startups and SMEs in both countries
- Accelerate defense technology collaboration
- Facilitate investor and industry participation
- Promote co-development and co-production
- Strengthen defense supply-chain resilience

Although INDUS-X has generated enthusiasm through summits, startup showcases, and networking events, many SMEs still struggle to move from discussions to executable partnerships.

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India's Innovations for Defence Excellence initiative was launched by the Ministry of Defence to encourage innovation among startups, MSMEs, individual innovators, industry, R&D institutions, and academia for defense and aerospace applications.

- Support indigenous innovation
- Provide grants and incubation support
- Enable startup and MSME participation in defense innovation
- Build domestic technological capability for future defense and aerospace needs

INDEX has helped create a startup culture within India's defense ecosystem. However, international integration, especially with U.S.-based SMEs, remains limited by regulatory, procedural, and market-access complexity.

“The problem is not lack of opportunity. The problem is the missing operating layer between strategic intent and commercial execution.”

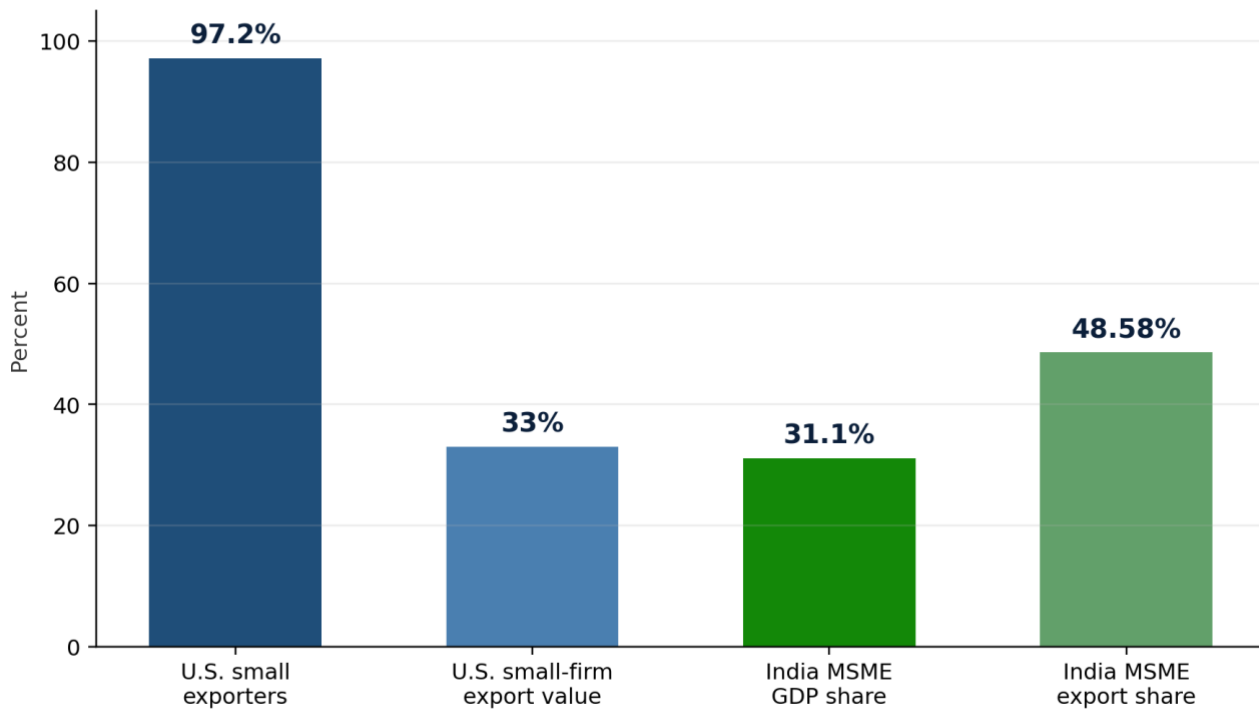
3. Why SMEs Want to Collaborate

Complementary Strengths

Indian SMEs and MSMEs bring cost-effective engineering talent, rapid software development capabilities, manufacturing scalability, frugal innovation, and emerging deep-tech ecosystems. U.S. SMEs bring advanced R&D, access to global defense and enterprise markets, venture capital networks, product design expertise, and mature commercialization practices.

Together, these complementary strengths create strong incentives for collaboration. Yet complementary capabilities do not automatically translate into successful partnerships.

SMEs Are Central to the U.S.-India Opportunity



Sources: SBA Office of Advocacy 2025 U.S. Small Business Profile; PIB India/MSME sector release, May 2026.

Figure 2. SMEs and MSMEs are economically important in both countries and should be central to the next phase of bilateral collaboration.

Supply Chain Diversification

Global geopolitical tensions and supply-chain disruptions have increased interest in diversified manufacturing and technology partnerships outside traditional hubs. India is increasingly viewed by U.S. companies as a strategic manufacturing alternative, a democratic technology partner, and a growing innovation market. Indian SMEs, in turn, view the United States as a high-value technology market and a gateway to global defense and enterprise ecosystems.

4. Core Challenges Preventing Effective Collaboration

Most SMEs lack practical understanding of cross-border contracting, U.S. export-control regulations such as ITAR and EAR, Indian defense procurement systems, intellectual property protection, international taxation, and compliance requirements. Even when business interest exists, companies often do not know how to initiate or structure collaboration.

Illustrative prioritization based on barriers discussed in the article; not survey data.

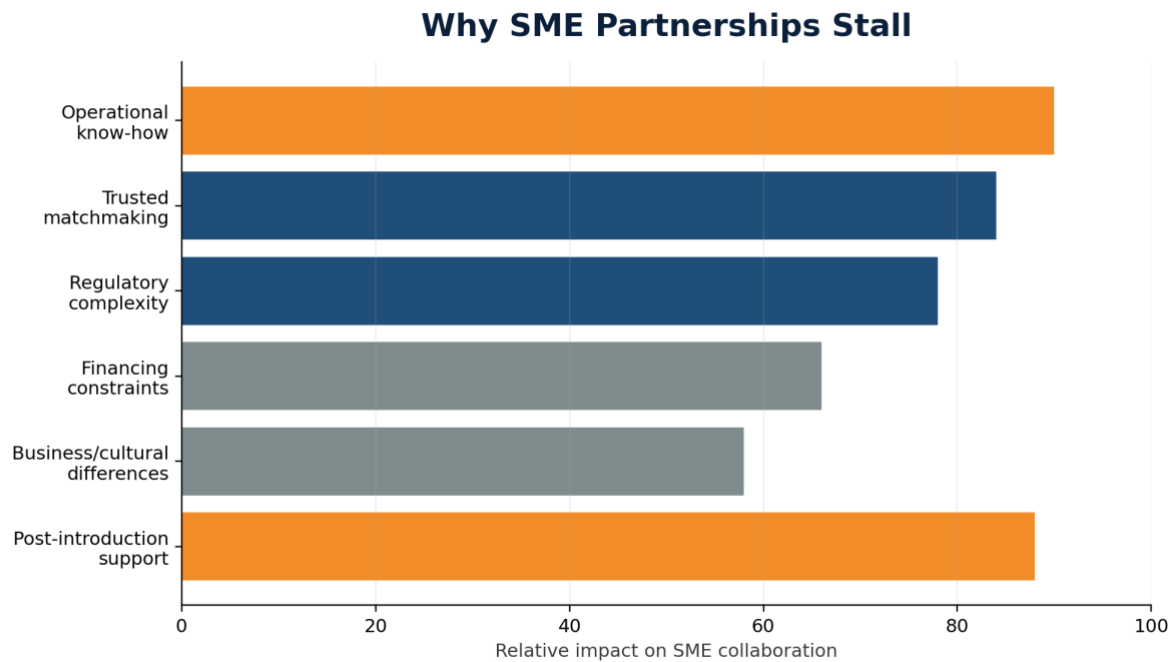


Figure 3. The largest barriers are practical and operational, not strategic.

Absence of Trusted Matchmaking and Execution Support

Current initiatives often focus on conferences, announcements, and strategic dialogues. What SMEs need, however, is longer-term matchmaking support, partnership facilitation, technical due diligence, legal onboarding assistance, and post-introduction execution support. Without this operating layer, companies often fail to identify reliable partners or sustain momentum after initial conversations.

Regulatory, Financing, and Cultural Barriers

U.S.-side challenges include export controls, security requirements, defense compliance, and contracting complexity. India-side challenges include procurement bureaucracy, localization requirements, certification delays, and public-sector purchasing processes. In addition, cross-border collaboration requires travel budgets, legal expenses, product adaptation, certifications, and pilot funding. Most SMEs operate with limited capital and cannot absorb long international sales cycles.

Differences in decision-making timelines, contract expectations, communication styles, risk tolerance, and procurement behavior can further slow progress. Trust-building often takes longer than SMEs anticipate.

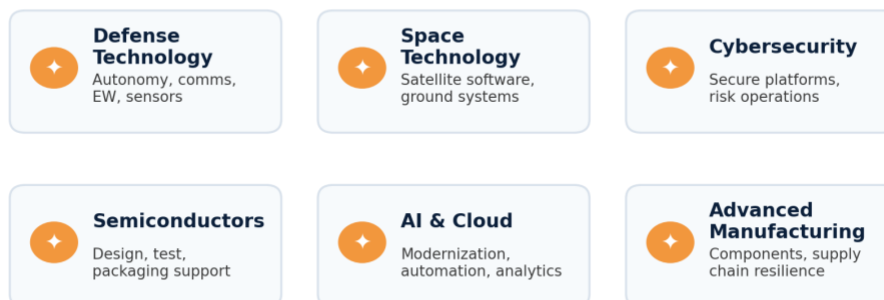
Where Collaboration Breaks Down



Figure 4. Many collaborations stall between initial interest and executable pilot projects.

5. Sector-Specific Opportunities

High-Potential Collaboration Sectors



The strongest opportunities combine U.S. market access and product leadership with India's engineering, manufacturing, and startup capacity.

Figure 5. The strongest U.S.-India SME opportunities sit at the intersection of technology, defense, aerospace, space, cyber, semiconductors, and advanced manufacturing.

Defense technology offers potential collaboration in drone systems, AI-enabled surveillance, electronic warfare software, edge computing, and battlefield communications. INDUS-X can become a major catalyst if procurement pathways become more SME-friendly.

Semiconductors create opportunities for U.S. design firms, testing and packaging partnerships, equipment suppliers, and talent collaboration. Cybersecurity offers a natural pairing between Indian engineering scale and U.S. market frameworks.

Commercial space ecosystems in both countries are rapidly growing and present opportunities in satellite systems, launch technologies, Earth observation analytics, and space software.

6. Recommendations

The next phase of U.S.-India cooperation should focus not only on high-level strategic partnerships but also on operational tools that allow SMEs to participate meaningfully.

- Create bilateral SME facilitation cells that provide regulatory guidance, legal templates, export-control awareness, taxation guidance, and market-entry support.
- Develop trusted matchmaking networks with verified partner databases and sector-specific collaboration platforms.
- Launch joint pilot funding programs to reduce early-stage risk and accelerate trust-building.
- Simplify procurement access through SME-friendly pathways, faster approval mechanisms, and sandbox testing environments.
- Build cross-border incubators and accelerators that help startups understand market expectations in both countries.
- Increase industry mentorship from experienced multinational executives, defense contractors, and technology leaders.

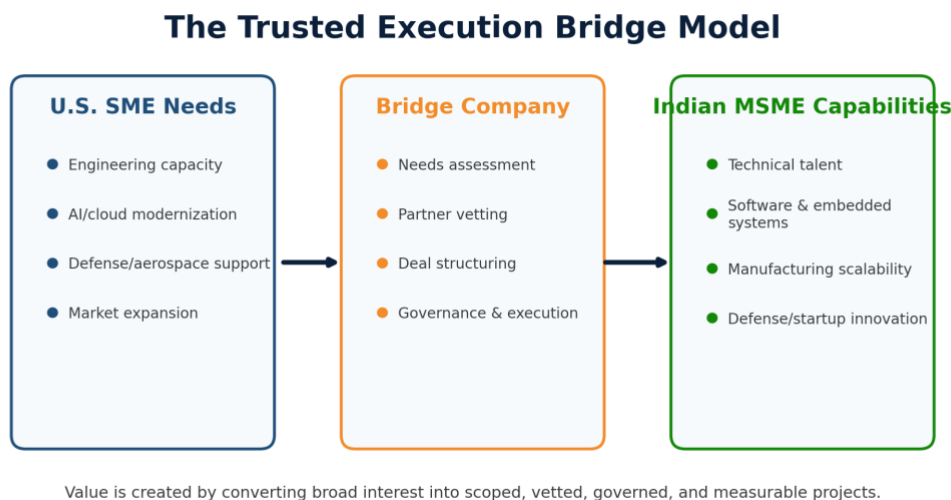


Figure 6. A trusted bridge company can move U.S. and Indian SMEs from broad interest to scoped, vetted, governed execution.

7. The Role of a Cross-Border Execution Bridge

A company with trusted connections in both countries can solve the gap by operating as a cross-border execution bridge rather than a simple broker. The bridge company can assess technical needs, identify suitable partners, vet capabilities, structure pilots, coordinate compliance review, and provide project governance.

For U.S. SMEs, such a bridge reduces the risk of choosing the wrong partner and helps convert broad technical needs into executable scopes. For Indian SMEs and MSMEs, the bridge creates access to serious U.S. opportunities and helps present their capabilities in a way that U.S. buyers understand.

The highest value is created after the introduction. Without governance, escalation management, milestone tracking, and technical review, cross-border partnerships can stall quickly. A trusted execution bridge keeps both sides aligned until the relationship produces measurable outcomes.

Conclusion

The strategic alignment between India and the United States has created unprecedented opportunities for SME collaboration, especially in defense, technology, and advanced manufacturing. Initiatives such as INDUS-X and iDEX represent important first steps toward building a connected innovation ecosystem.

However, enthusiasm alone is insufficient. SMEs require operational support, trusted networks, financing access, and simplified regulatory pathways to translate bilateral intent into commercial reality.

If these barriers are successfully addressed, the United States and India can unlock a powerful new era of bilateral industrial and technological cooperation - one driven not only by large corporations and governments, but also by the thousands of SMEs and startups that form the backbone of innovation in both countries.

Source Notes

1. Office of the U.S. Trade Representative, India country profile: U.S. goods and services trade with India totaled an estimated \$212.3 billion in 2024, up 8.3 percent from 2023.
2. Defense Innovation Unit, INDUS-X description: INDUS-X serves as an innovation bridge among U.S. and Indian defense companies, incubators, accelerators, investors, universities, and government stakeholders.
3. India Department of Defence Production / iDEX: iDEX supports innovation and technology development in defense and aerospace by engaging MSMEs, startups, individual innovators, R&D institutes, and academia.
4. SBA Office of Advocacy, 2025 U.S. Small Business Profile: In 2023, 270,014 small firms represented 97.2 percent of identified U.S. goods exporters and accounted for 33.0 percent of exports by identified firms.
5. Press Information Bureau of India, May 2026: MSMEs contribute about 31.1 percent to India's GDP, 48.58 percent of total exports, and 35.4 percent of manufacturing output.
6. All graphics and infographics in this article are custom-created for this publication draft. No third-party stock images are embedded.