2023 Roundup: Small Steps and Big Shifts in U.S.-India Relations

2023 was one of the more consequential years for U.S.-India relations—for both, positive and negative reasons. Poring through the numerous senior-level engagements and outcome documents, the relationship largely remains in the “agenda-setting mode”. However, as indicated by the types of engagements and frequency—one can expect concrete outcomes soon. Notably, China remains a driving imperative behind U.S.-India strategic and commercial relations.

However, there were several tangible steps marking important shifts in U.S.-India relations. I have outlined five big events from the past year and underscored their larger implications. Additionally, I have also linked the work produced by the CSIS India Chair on the five subjects to provide additional detail. The events are not chronological but rather in the order of significance.

1. **GE Engine Deal, June 2023**: General Electric and Hindustan Aeronautics Limited announced an agreement to co-produce the F-141 engine for India’s domestic “Tejas” light fighter. The two governments first announced plans to work towards co-production of jet engines in January 2015, but discussions soon died off.

   **The Significance**: This agreement underscores growing U.S. trust in India, based on shared security concerns. Helping India improve defense production will also reduce India’s continued reliance on Russian-made defense equipment. This agreement also shows that ideas which may have failed a decade ago can be successfully revisited.

2. **Dropping WTO Disputes, June 2023**: During Prime Minister Narendra Modi’s state visit to Washington in June, the two governments agreed to drop six outstanding disputes before the World Trade Organization. The seventh and final dispute was dropped during President Biden’s visit to India in September 2023.

   **The Significance**: Trade policy remains one of the weakest areas of bilateral government engagement. While the two sides have made some progress in discussions over areas of strategically significant trade, general trade concerns fester. Utilizing leader-level summits to end disputes might be an “overkill,” but it shows growing recognition from both nations that improving commercial ties is crucial for the long-term sustainability of the relationship. However, as I noted in an earlier piece, despite the significance of the measures, a comprehensive framework akin to the Australian government’s 2018 India Economic Strategy would be momentous for bilateral commercial relationship.

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**KEY DATA**

- **-20%**
  - U.S.-India goods trade, 12-month
  - PER U.S. CENSUS BUREAU

- **-7%**
  - Foreign direct investment, 12-month
  - PER RBI

- **$20 bn**
  - FII assets net flows, 12-month
  - PER NSDL
3. **Combined Maritime Force Bahrain, November 2023:** While the American and Indian militaries regularly conduct exercises, there is a dearth of practical military cooperation. That changed at the India-U.S. 2+2 Ministerial Dialogue in November, in Delhi when India announced it would join the 28-member “Combined Maritime Forces” naval partnership based in Bahrain.

*The Significance:* India’s membership of the CMF provides a new, regularized venue for U.S.-India interoperability training. We may soon witness more regular joint security missions in the Gulf to counter piracy, smuggling, and other illicit operations.

4. **New York Assassination Attempt Indictment, November 2023:** As the year was nearing its close, U.S.-India relations were shook with the unsealing of an indictment in the Southern District of New York. The indictment alleged a plot outlining an Indian intelligence officer’s involvement in the attempted assassination of a Sikh separatist who is an American citizen. As this case moves ahead, there will likely be other closely watched moments that could alter the trajectory of U.S.-India ties.

*The Significance:* American policy circles are already replete with critics of India’s recent record in areas like religious tolerance and human rights. While the Biden Administration has chosen—so far—to press ahead on cooperation, the assassination attempt further strengthens these critics and raises fundamental questions about the depth of our “shared values.” As noted by my colleague Katherine Hadda, the United States’ approach to focus on a specific Indian official rather than implicating the entire government is pragmatic. Most likely, reasonable action from India in response to these allegations will suffice to maintain the relationship’s momentum. However, the event adds uncertainty to the relationship. Other steps by the Modi government that shrink the civil society space can further move these currents.

5. **Steep Drop in FDI:** Media reports of significant investments by foreign technology firms into India engenders the feeling that “Make in India,” paired with increased trade pressure on China, has finally started to build momentum. However, the government of India’s own data proves otherwise. According to the Reserve Bank of India (RBI) Monthly Bulletin data, India saw a 27 percent year-on-year drop in 12-month foreign direct investment (FDI) inflow (new equity) and a 43 percent drop in FDI inflow from the mid-2021 peak. World Bank data shows manufacturing stuck at around 13 percent of India’s Gross Domestic Product (GDP). One major potential investor, Foxconn, dropped its massive $20 billion chip venture with Vedanta this summer. However, there are some “green shoots” that foreign investment might finally be shifting back towards India—including a healthy $6.5 billion new equity inflow in October 2023.

*The Significance:* There are a multitude of reasons that the FDI into India has declined. First, there has been a significant slowdown in new reforms during the Modi government’s second term, as indicated by our own “India Reforms Scorecard.” Second, too few state governments are aggressively pursuing foreign investment. Third, regulatory shifts occur quite often. Finally, dozens of sectors still have foreign investment restrictions including both sectoral FDI caps as well as stringent operational regulations that only apply to foreign companies. U.S.-India cooperation on boosting Indian manufacturing will be mutually advantageous. For instance, my colleague Raymond Vickery, notes that the signing of the U.S.-India Memorandum of Understanding on Semiconductor Supply Chain and Innovation will allow the two countries to identify complementary competencies, and prevent unrequited competition.

The coming year is replete with promises and pitfalls. National elections in both India and the United States could trigger shifts in foreign policy and economic policymaking. New revelations related to the attempted murder case in New York may provide new fuel to the relationship’s critics. Additionally, the United States’ and India’s differing approaches to the elections in Bangladesh will underscore geostrategic divisions.

However, we can expect the several workstreams outlined above to bear fruit. Senior-level engagements provide action-forcing events—with great urgency over time as China increases its dangerous activities across the Indo-Pacific.
In the words of the author Karl Schroeder, “Foresight is not about predicting the future, it’s about minimizing surprise”. We may not know every significant in 2024 that will influence the relationship, but the high level of dialogue between the United States and Indian governments is reason for cautious optimism.

Below, I have attached some notable work my colleagues and I produced over the year.

2023 Media Highlights @ CSIS India

Richard Rossow, Modi’s State Visit to Washington: Renewed Momentum in U.S.-India Ties, CSIS
Neelima Jain, CSIS’ Jain on Modi’s White House Visit, Bloomberg
Donald Camp, Aman Thakker, Experts React: What To Expect from the U.S.-India 2+2 Summit, CSIS
Richard Rossow, Katherine Hadda, Jayant Krishna, Shashwat Kumar, Experts React: What to Expect from the G20 Leaders’ Summit, CSIS
Raymond Vickery, India-US to sign historic defense deal, India Today
Richard Rossow, U.S.-India Ties: Getting Past the ‘Building Trust’ Phase, CSIS
Richard Rossow, US, India Play Down Sikh Murder Plot With Wider Asia Strategy at Risk, Bloomberg
Richard Rossow, Why a murder plot will not turn the US away from India, Reuters
Katherine Hadda, Will the Sikh separatist assassination plot harm India-US ties?, TRT World
Richard Rossow, Biden faces foreign policy trouble spots as he aims to highlight his experience on the global stage, Associated Press
Richard Rossow, US-India Insight: An Agenda for India to Re-Ignite Interest among Foreign Investors, CSIS
Richard Rossow, Modi’s Visit to US: Go big on commercial ties. There’s shared prosperity waiting, China lurking, Money Control
Katherine Hadda, Deciphering India’s State Elections, CSIS
Neelima Jain, Richard Rossow, Accelerate 175: Report Launch, CSIS
Richard Rossow, Bloomberg Markets: The Close, Bloomberg
Richard Rossow, Ambitious plans for US-India technology sharing face hurdles, Reuters
Richard Rossow, Cooperative/Competitive Federalism in India: Mr. Suman Bery, VC, NITI Aayog, CSIS
Raymond Vickery, US-India Strategic and Commercial Convergence, The Diplomat