



US·INDIA
STRATEGIC PARTNERSHIP FORUM



India's Growing Economic Partnership in the Quad

June 2023

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Executive Summary

This Report focuses on India's growing role in the Quadrilateral Security Dialogue (QUAD). Comprised of the United States, India, Japan, and Australia, the QUAD has evolved into an active institutional mechanism in the aftermath of the COVID crisis and ongoing supply chain disruptions due to geopolitical developments. India may leverage its G-20 leadership role to expand the scope of cooperation among the QUAD member states. While the QUAD mechanism does not provide for a trade agreement at this point, it has tremendous potential for economic partnership among its member countries, who currently constitute 34% of global nominal GDP. The QUAD can provide a platform to its member states to align on a wide range of trade and investment issues, which can eventually become the foundation for a regional free trade agreement in future.

This Report discusses QUAD progression and its significance in the Indo-Pacific region, India's growing trade and investment relations with the QUAD partner countries, and the way forward for making the QUAD a pragmatic economic institution.

The QUAD Progression

In response to the 2004 Indian Ocean earthquake and tsunami, the United States, Australia, India, and Japan set up a regional core group. This group was later named the Quadrilateral Security Dialogue (QUAD) in 2007 to expand discussions on multilateral security issues in the Indo-Pacific region. In its first year it remained largely a technocratic, security-focused forum and the initiative fell apart in 2008 under intense pressure from China and the threat of economic retaliation. But it was revived in 2017 amid renewed concerns about China's rapid rise as a global superpower and Beijing's increasingly aggressive foreign policy. India's active participation in the discussions slowly waned until 2021, when the concurrent India-China border crisis and the COVID-19 pandemic prompted India to renew its willingness to work closely with the United States, Japan, and Australia under the QUAD.

The QUAD held its first national leader summit in 2021 and continues to meet at regular intervals. As a mechanism specifically designed to build the capacity and resilience of regional states, its agenda is not fixed and not bounded, so it has the flexibility to extend into new areas of cooperation, including on the new Indo-Pacific Economic Framework (IPEF) launched in Tokyo in 2022 with QUAD plus ASEAN members. The QUAD seeks to provide international public goods and other significant measures, from climate action to telecommunications regulations. In recent years the QUAD formed working groups on climate change, technological innovation, and supply-chain resilience and pledged to supply one billion COVID-19 vaccines across Asia by the end of 2022. The Indo-Pacific Framework is expected to provide momentum for economic cooperation among the QUAD countries – such as in infrastructure and supply-chain resilience.

At the same time, the QUAD has limited its security-related work to specific areas that holistically benefit and serve the Indo-Pacific needs, such as maritime domain awareness. Military cooperation has been excluded from the agenda, though the QUAD countries have continued and even accelerated their military cooperation bilaterally; for example, the

Malabar Exercise among India, Japan, and the United States continues regularly, and the Indian and the US Defense and Foreign Ministers meet at the regular "2+2 Dialogue."

The QUAD leaders were scheduled to meet for a Summit in May 2023 in Sydney, Australia, but cancelled the meeting after convening on the sidelines of the G7 summit in Tokyo, Japan earlier that month. In Tokyo the leaders met to advance the QUAD's ambitious and diverse agenda. The new Clean Energy Supply Chains initiative will support energy security and accelerate the Indo-Pacific's clean energy transition by facilitating research and development that will lower clean energy manufacturing and deployment costs. To support regional health security, the leaders upgraded the QUAD Vaccine Partnership to the broader QUAD Health Security Partnership. Meanwhile, the QUAD Infrastructure Fellowships Program initiative will empower more than 1,800 of the region's infrastructure practitioners to design, build, and manage quality infrastructure in their home countries, and a new QUAD Partnership for Cable Connectivity and Resilience will improve the region's digital connectivity, drawing on world-class expertise in manufacturing, installing, and maintaining cable infrastructure.

India's Role in the QUAD

The three other QUAD partners have all indicated their intention to reinforce strategic ties with India, recognizing India's central role in the QUAD grouping given its strategic geography, solid human capital base, economic potential, and IT skills. India appears to be playing a major role in ensuring that the QUAD becomes an institutionalized framework suitable to address transnational issues affecting the Indo-Pacific, including global health, infrastructure, climate change, new and emerging technologies, space, and maritime domain awareness.

Economic cooperation among the QUAD countries balances the rise of China in a subtle way. For its part, India stresses that the QUAD mechanism is not meant to counter China or any other country, but instead for building credible and sustainable cooperation in the Indo-Pacific region. However, many observers envision the QUAD evolving into a robust trade and investment partnership between the member countries to counterbalance China's Belt and Road Initiative. The QUAD has decided to consider a connectivity partnership for investing in the Indo-Pacific region and set up task forces on supply chain resilient infrastructure, climate change, emerging technologies (such as common standard for 5G technology, AI). The success of these initiatives will depend on active commitment within the QUAD states act to translate plans into concrete benefits across the Indo-Pacific.

India is also a signatory to the Indo-Pacific Economic Framework (IPEF) agreement currently under negotiations but has not, as of now, agreed to participate in the IPEF Trade Pillar. The other QUAD partners have encouraged India to join the Trade Pillar to engage actively in the economic prosperity of the region. The IPEF comprises 40% of global trade and 60% of the world population but does not include an FTA as of now. Some analysts view IPEF as an important platform through which India can balance the Chinese-dominated Regional Comprehensive Economic Partnership (RCEP) in the region. India may also use its current leadership of the G20 as an opportunity to gauge global convergence on an array of global economic issues of interest to the QUAD, such as facilitating trade and global value chains

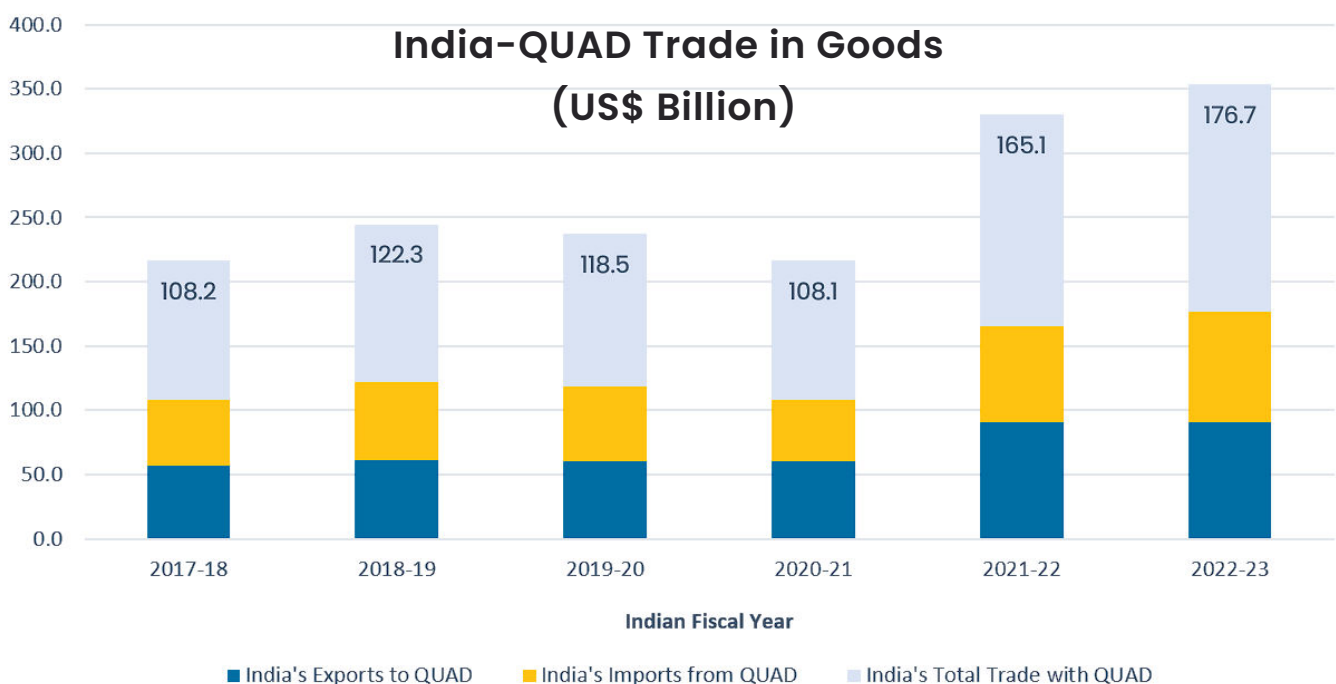
and enhancing technical collaboration in emerging areas (artificial intelligence, clean energy transition, next-generation telecommunication standards, blockchain, drone technology).

The QUAD also allows member states to build bilateral strategic and security partnerships, which can lead to long-term cooperation with a wide range of economic benefits. For instance, India’s defense sector provides opportunities for American investments in domestic manufacturing; a facilitating regulatory regime for the sector in India will boost American investment in the short term while also providing a building block for a future QUAD Trade Agreement, promoting India as a freer market. A Free Trade Agreement between the QUAD members would also improve their participation in global value chains. Besides bilateral economic gains, closer trade and investment ties among partners would serve geopolitical interests in the Indo-Pacific region.

India’s Trade with the QUAD Countries

India-QUAD Trade in Goods (US\$ Billion)						
Indian Fiscal Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
India's Exports to QUAD	56.6	60.8	60.5	60.1	90.6	91.0
India's Imports from QUAD	51.6	61.5	58.0	48.0	74.5	85.8
India's Total Trade with QUAD	108.2	122.3	118.5	108.1	165.1	176.7
Trade Balance	5.1	-0.6	2.5	12.0	16.1	5.2

Data Source: GoI, Ministry of Commerce Trade Data



Data Source: GoI Ministry of Commerce Trade Data

India's trade in goods with the QUAD was steady before the pandemic year, i.e., FY2020-21, but grew significantly (at 53%) in FY2021-22, following the elevation of the grouping's economic cooperation. As the United States is India's biggest bilateral trading partner, their increasing trade relationship is reflected in the QUAD partnership as well. India has also increased its economic engagement with Australia and Japan, in response to Chinese aggression in the region. Australia has been eager to increase trade ties with India as China imposed restrictions on certain Australian products; likewise, Japan has also shown interest in increasing economic engagement with India in a bid to diversify. India's engagement with the QUAD partners is expected to multiply over the next five years as these trends continue.

India-Australia Economic Ties

India-Australia relations seem to be shifting from the strategic to the economic side in response to recent geopolitical developments, such as supply disruptions from the Ukraine-Russia war and increasing desire to diversify away from China.

Trade prospects between India and Australia have expanded in recent years. In June 2020, the relationship between the two countries was elevated from a Strategic Partnership to a Comprehensive Strategic Partnership. Negotiations for the India-Australia Economic Cooperation and Trade Agreement (ECTA), as a forerunner to a Comprehensive Economic Cooperation Agreement (CEPA), were put on the fast-track and came into force December 29, 2022. The ECTA removes duties on 96% of Indian exports to Australia and 85% Australian exports to India. A Free Trade Agreement (FTA) will expand this trade facilitation further by lowering more barriers and addressing key industry and investor concerns.

India and Australia hope to conclude the CEPA negotiations by the end of 2023. They expect the agreement to expand two-way trade to US\$100 billion, from the current \$26 billion, within five years of implementation. The CEPA will cover trade in goods and areas such as services, investments, government procurement, and intellectual property. Trade analysts are also keenly observing India's FTA negotiations with the United Kingdom and European Union, currently underway, for insights to India's objectives in growing its international trade presence.

Australia's Department of Foreign Affairs and Trade has released its "Update to the India Economic Strategy to 2035: Navigating from Potential to Delivery (IES) of 2018," offering a roadmap to deeper economic integration with India. The 2022 Update provides a five-year action plan for the Australian Government and responds to evolving opportunities for both countries, including changed global circumstances, the improving bilateral relationship, and key economic reforms in India. Priority sectors identified by the IES include technology, space, mining equipment, services, education, defense, among others.

During the Australian PM visit to India in March 2023, several MOUs and partnerships were launched across a range of areas, including education, clean technology, critical minerals (rare earth, hydrogen, green hydrogen) space, foreign trade, skills, innovation, and defense exchange. The India-Australia Critical Minerals Investment Partnership is expected to develop trusted strategic supply chains between the two partners, marrying Australia's

abundant resources with India ambitious plans to scale up its clean energy industry and technology, including electric vehicles.

India and Australia also decided in March 2023 to recognize each other's education degrees, in a landmark development that opens numerous commercial opportunities for education service providers. Education is Australia's largest service export to India and was valued at US\$4.2 billion in 2021. India is the second largest source of international students and largest pool of skilled migrants to Australia. India continues to prioritize education reforms through implementing its New Education Policy, and Australian universities are keen to explore opportunities in the vast Indian education market, including K-12 school education and professional upskilling. India is also eager to leverage its demographic dividend through local talent development and upskilling.

In May 2023, PM Modi chose to proceed with his planned visit to Sydney despite cancellation of the QUAD Summit, demonstrating the strength of his desire to increase bilateral relations with Australia. The bilateral discussions between PM Modi and PM Albanese focused on increasing cooperation in defense and security, trade and investment, new and renewable energy, green hydrogen, critical minerals, education, migration and mobility, and people-to-people ties. The leaders signed the India-Australia Migration and Mobility Partnership Agreement (MMPA), which will facilitate the mutual mobility of students, graduates, professionals, researchers, academics, and businesspeople. MMPA includes the Mobility Arrangement for Talented Early Professional Scheme (MATES), which is an exclusive arrangement created specifically for India. India and Australia also agreed on a bilateral green hydrogen task force that will promote cooperation on producing the gas without the use of fossil fuels.

India-Australia Trade

Australia is India's 21st biggest export market while it is 10th largest supplier of imported goods for India. Bilateral trade between India and Australia remained below US\$20 billion in the pre-COVID era, falling as low as US\$12.3 billion in Indian Fiscal Year (FY) 2020-21, but recovered to more than US\$25 billion in FY2021-22.

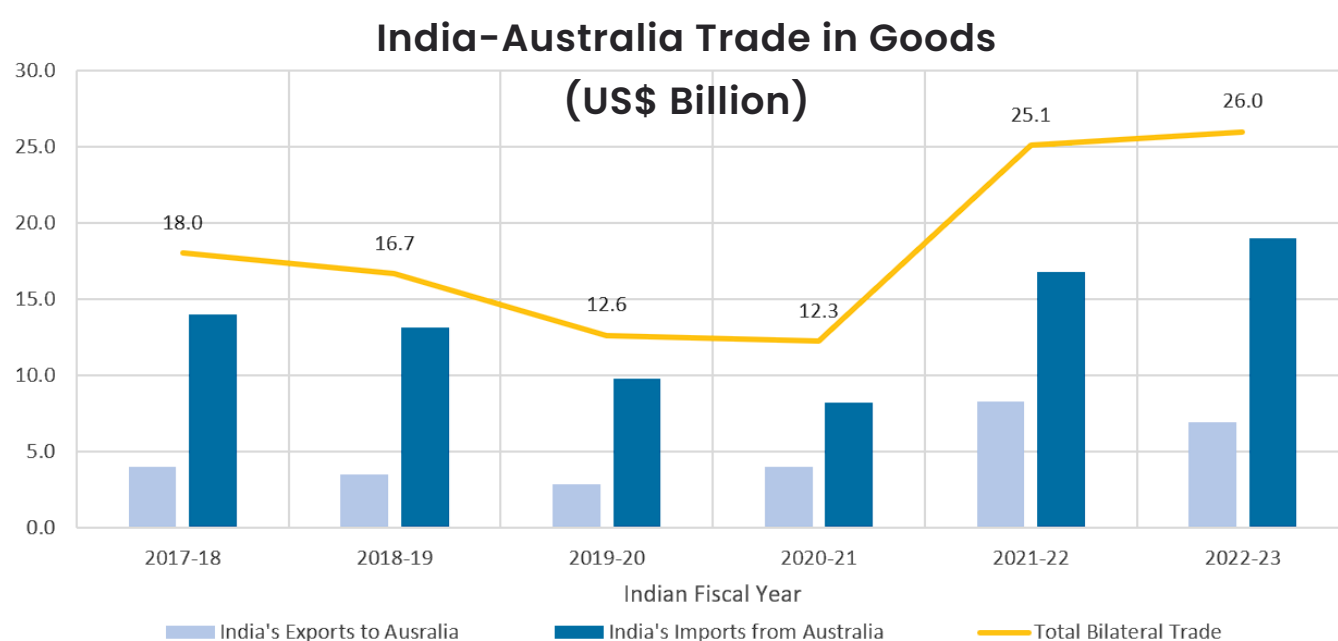
India's export basket to Australia comprises primarily of items like petroleum products, pharmaceuticals, electric machinery, and engineering goods, while key Australian exports to India include coal, gold, and aluminum.

In the services sector, major Indian exports to Australia are related to travel, telecommunications & computer, and financial services, while Australian services exported to India are primarily related to education and personal services.

India-Australia Bilateral Trade in Goods (US\$ Billion)

Indian Fiscal Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
India's Exports to Australia	4.0	3.5	2.9	4.0	8.3	7.0
India's Imports from Australia	14.0	13.1	9.8	8.3	16.8	19.0
Total Bilateral Trade	18.0	16.7	12.6	12.3	25.1	26.0
Trade Balance	-10.0	-9.6	-6.9	-4.3	-8.5	-12.1

Data Source: GoI, Ministry of Commerce Trade Data



Data Source: GoI Ministry of Commerce Trade Data

In FY2022-23, India exported US\$6.95 billion worth of merchandise to Australia, mainly Refined Petroleum (US\$2.99 billion), Packaged Medicaments (US\$0.4 billion), and Electric Machinery (US\$0.3 billion). India's exports to Australia increased at an average annual rate of 8.7%, from US\$0.4 billion in FY1995-96 to US\$4.0 billion in FY2020-21. However, in FY2021-22 the exports more than doubled to \$8.28 billion before retreating somewhat this year.

In FY2022-23, India's imports from Australia amounted to US\$19.01 billion. The main products that Australia exported to India were Coal Briquettes (US\$14.7 billion), Gold (US\$1.0 billion), and Bulk Minerals and Ores (US\$0.6 billion). India's imports increased at an annual rate of about 9%, from US\$1.38 billion in FY1995-96 to US\$8.25 billion in FY2020-21. However, in FY2021-22, India's imports from Australia more than doubled to US\$16.8 billion and continued to rise this year.

India-Japan Economic Ties

In recent years, the India-Japan relationship has grown into a partnership of great substance and purpose. Japan's interest in India is increasing due to India's large and growing market and resource base, especially human resources. Japanese investment has been crucial for India's automobile exports and added dynamism to Indian manufacturing in technology-oriented and supply chain sectors. In recent years, Japan and India have identified many shared interests in Indo-Pacific area, mainly related to decoupling from China as an economic partner.

Apart from the Comprehensive Economic Partnership Agreement (CEPA) both countries signed the India - Japan Industrial Competitiveness Partnership (Memorandum of Cooperation) in November 2021 to strengthen India's industrial competitiveness and enhance their bilateral Special Strategic and Global Partnership. The India-Japan Digital Partnership (IJDP) and Start-up Hub, launched in October 2018, widened the scope of cooperation in Science & Technology/Information and Communication Technology and created a "Start-up Hub" between India and Japan. In August 2020, the Japanese Government announced it would provide financial assistance to 10 Japanese companies planning to start new business in India.

The trilateral Supply Chain Resilience Initiative (SCRI) among Australia, India, and Japan was launched in September 2020 to ensure supply chain resilience through diversification in the Indo-Pacific region through sharing best practices and holding investment promotion events. India and Japan also have a cooperation program in skill development that aims to train 30,000 Indian floor shop leaders and engineers to Japanese standards in the next 10 years. In addition, another collaborative measure in skill development promotes movement of skilled workers from India to Japan in 14 specified industry sectors. The Energy Dialogue between the two partners is a comprehensive dialogue that also includes the India-Japan Clean Energy Partnership (CEP) launched in March 2022.

Japan has also been a leading financial donor to India, providing support for India's mega infrastructure projects like the Delhi-Mumbai Freight Corridor, Delhi-Mumbai Industrial Corridor, Chennai-Bangalore Industrial Corridor, and the Ahmedabad-Mumbai High Speed Rail. The two countries also appear to be deepening bilateral defense cooperation. India and Japan have agreed to conduct the India-Japan joint fighter aircraft exercise in Japan. Identifying the significance of maritime safety for a free, open, inclusive, and rules-based Indo-Pacific, India and Japan have agreed to enhance cooperation and capacity building in maritime security and Maritime Domain Awareness. They have also identified defense equipment and technology as areas of further cooperation.

Indo-Pacific cooperation has remained the centerpiece of talks within the QUAD. Demonstrating India's significance to Japan's strategic planning in the region, the Japanese Prime Minister unveiled Japan's new Free and Open Indo-Pacific (FOIP) Plan in March 2023 during his visit to Delhi and noted India will be central to all the four pillars of the plan.

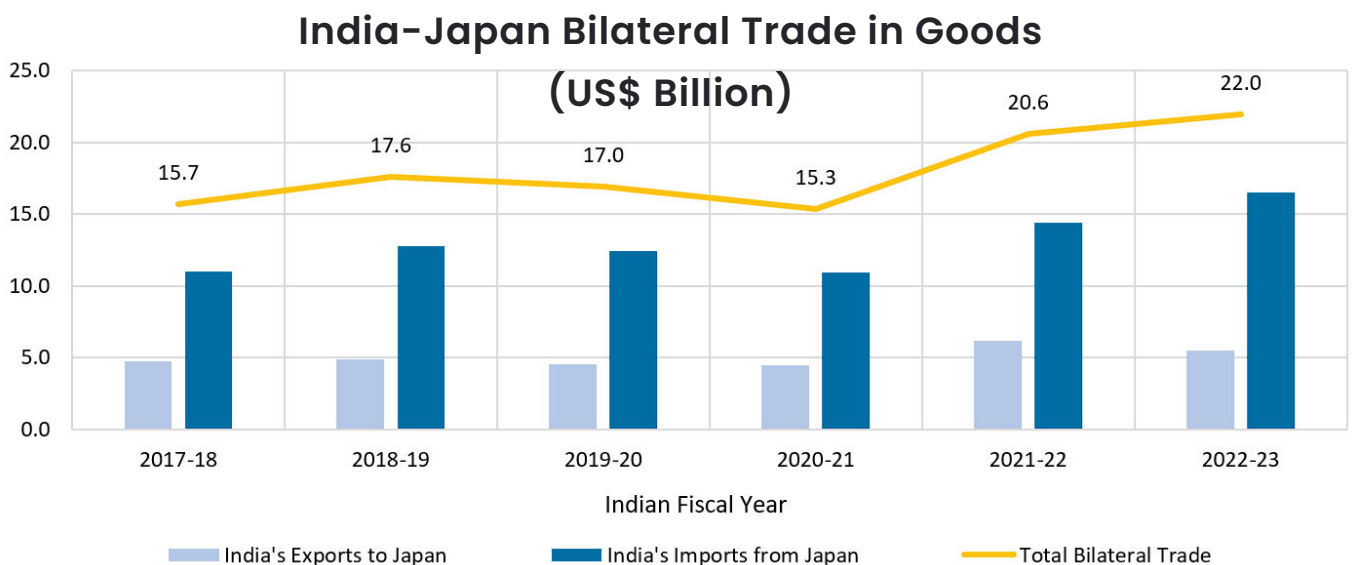
Indian Prime Minister Modi held a bilateral meeting with Japanese Prime Minister Kishida on 20 May 2023 on the sidelines of the G-7 Summit in Hiroshima. Discussions focused on areas of

education, skill development, tourism, green hydrogen, high technology, semiconductors, and digital public infrastructure.

India-Japan Trade

India-Japan Bilateral Trade in Goods (US\$ Billion)						
Indian Fiscal Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
India's Exports to Japan	4.7	4.9	4.5	4.4	6.2	5.5
India's Imports from Japan	11.0	12.8	12.4	10.9	14.4	16.5
Total Bilateral Trade	15.7	17.6	17.0	15.3	20.6	22.0
Trade Balance	-6.2	-7.9	-7.9	-6.5	-8.2	-11.0

Data Source: GoI, Ministry of Commerce Trade Data



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India's bilateral trade with Japan totaled US\$22.0 billion during FY2022-23. Exports from India to Japan during this period were US\$5.5 billion and imports from Japan were US\$16.5 billion. Japan's supplies accounted for 2.3% of India's total imports and India's exports to Japan were 1.2% of India's total exports, implying there remains a big unexploited trade potential between the two partners. India-Japan bilateral trade engagements have been below potential. Japan is India's 26th largest export market while Japan is India's 13th largest supplier of imports.

India's top exports to Japan include Marine Products (US\$0.5 billion), Petroleum Products (US\$0.3 billion), Organic Chemicals (US\$0.3 billion), Aluminum (US\$0.3 billion) and Gems & Jewelry (US\$0.3 billion).

India's top imports from Japan include Residual Chemicals (US\$2.3 billion), Iron & Steel (US\$1.4 billion), Copper & Products (US\$1.3 billion), Industrial Machinery (US\$1.15 billion) and Plastic Raw Materials (US\$1.05 billion).

India-US Economic Ties

India-U.S. economic relations have evolved into a "global strategic partnership", based on convergence on bilateral, regional, and global issues. The 2+2 Ministerial Dialogue is the premier recurring dialogue mechanism between the United States and India; in addition, India-U.S. cooperation has been growing under various bilateral dialogues, including health, trade, economic, science & technology, and energy, which take place regularly and include various working groups advance agreed issues throughout the year. Trade and commercial partnerships between India and the United States play a significant role in the partnership between the two countries. However, the two partners have not yet initiated negotiations for a Free Trade Agreement.

The most recent initiative between the United States and India was the launch of the United States-India Initiative on Critical and Emerging Technologies (ICET) in January 2023, focusing on developing innovative defense technology, resilient semiconductor supply chains, and strengthening bilateral commercial space partnership through talent and research exchanges. ICET is also expected to strengthen the partnership on developing a secure technology ecosystem; Track I collaboration will focus on AI, semiconductors, clean energy, quantum, cyber security, biotechnology, and defense.

To boost trade and investment, the Indian government has provided numerous economic and comprehensive packages, including Production-Linked Incentives (PLIs), Mega Investment Parks, National Hydrogen Energy Mission, and Digital India, that have increased investors' confidence. With over 77,000 start-ups across the country, India is the third largest start-up ecosystem globally. Many US-based multinational enterprises have invested in the robust tech start-up ecosystem. With a growing economic partnership and positive trajectory in defense, security, and strategic areas, new avenues in trade cooperation are expected to increase trade and investment in sophisticated technology and resilient supply chains across sectors like pharmaceuticals, aerospace, drones, and patented drugs.

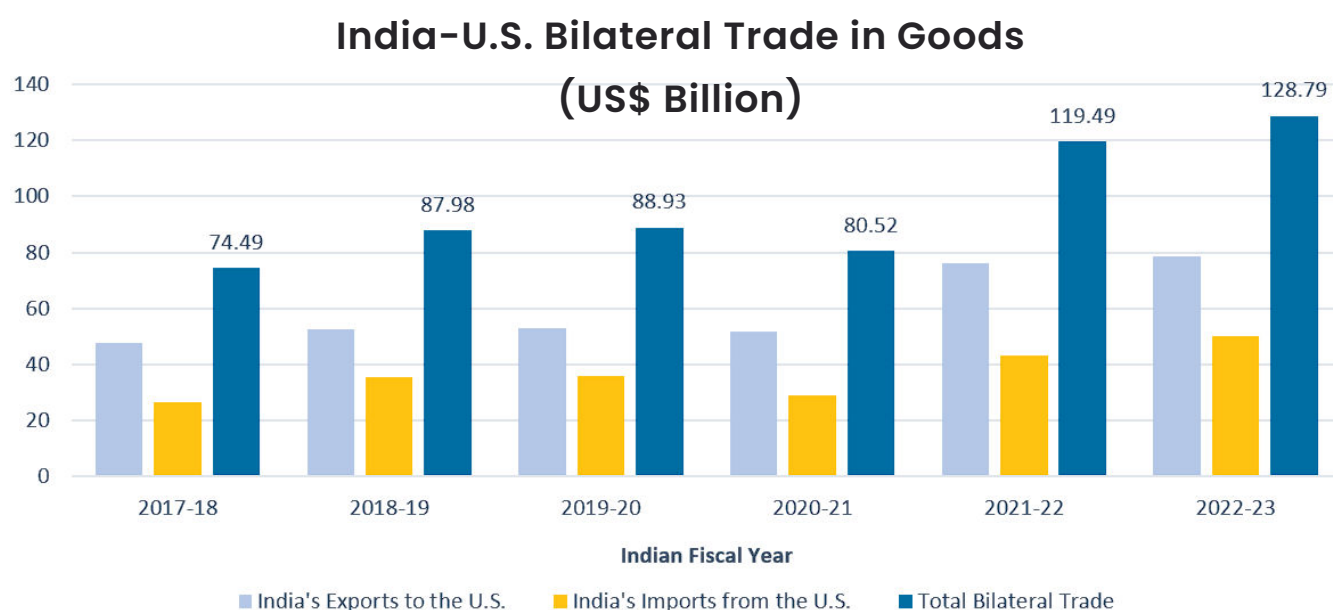
India-US Trade

The United States emerged as India's biggest trading partner in FY2022-23, replacing China. According to the GoI's Ministry of Commerce data, the bilateral trade in goods between India and the United States was up 7.9% to US\$128.8 billion in FY2022-23, from US\$119.5 billion in FY2021-22.

India's merchandise exports to the United States rose by 3.2% to \$78.6 billion in FY2022-23, from \$76.2 billion in FY2021-22, while imports grew by about 16% to \$50.2 billion. India maintained a trade surplus of \$28.3 billion with the United States in FY2022-23.

India-US Bilateral Trade in Goods (US\$ Billion)						
Indian Fiscal Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
India's Exports to the U.S.	47.88	52.43	53.11	51.63	76.18	78.55
India's Imports from the U.S.	26.61	35.55	35.82	28.89	43.31	50.24
Total Bilateral Trade	74.49	87.98	88.93	80.52	119.49	128.79
Trade Balance	21.27	16.88	17.29	22.74	32.87	28.31

Data Source: GoI, Ministry of Commerce Trade Data



Data Source: GoI Ministry of Commerce Trade Data

In FY2022-23, India's top exports to the United States included Gems, Gold & Jewelry (US\$12.5 billion), Pharmaceuticals (US\$6.8 billion), Petroleum Products (US\$6.0 billion), Readymade Garments (US\$3.1 billion), and Iron & Steel Articles (US\$3.1 billion).

India's top imports from the United States for FY2022-23 were Petroleum Crude Oil (US\$10.2 billion), Raw Gemstones, Pearls, and Gold (US\$7.3 billion), Coal (US\$3.7 billion), Petroleum Products (US\$3.2 billion), and Organic Chemicals (US\$1.2 billion).

Way Forward

The QUAD countries are at crucial cross-roads for conveying the value of the partnership in the Indo-Pacific. QUAD leaders must develop a robust agenda that can deliver meaningful actions and deepen economic cooperation, especially trade and investment, among the QUAD countries internally and externally. India may also leverage its G-20 leadership role to expand the QUAD cooperation. For instance, the QUAD has set up a working group on addressing supply chain vulnerabilities in critical technologies; it could expand on challenges in health supply chains, specifically in chemical raw materials, such as Active Pharmaceutical Ingredients (API), to reduce dependencies on China. Likewise, an assessment of semiconductor capacities can bring investment solutions to address the challenges faced by semiconductor supply chains globally. The QUAD has committed to deepen space cooperation, including exchange of satellite data among members; cooperation may be expanded to niche space-based technologies.

As the QUAD agenda develops, cooperation among the QUAD members may be more broad-based and move towards more sophisticated areas, such as information sharing, space technologies, clean energy, cyber security, digital governance, and trade.