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CARGO & CAPITAL

The Quad in flux



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EDITORS' NOTE

Welcome to the September 2026 edition of StoneBench's *Cargo & Capital* newsletter, our newsletter examining how trade and capital flows are shifting in response evolving defence and diplomatic alliances, and redrawing Asia's economic map as a result. In this edition, we look at the effects of the US' ongoing retreat from global alliances and the Trump administration adopts a more transactional and selective posture in the Indo-Pacific.

The US military's own posture has sent mixed signals. The renaming of US Indo-Pacific Command (INDOPACOM) back to its previous Pacific Command (PACOM) designation was interpreted by some allies as a narrowing of strategic focus. Pentagon policy chief Elbridge Colby sought to reassure partners that the change did not diminish the importance of the Indian Ocean or South Asia, but the optics were noted across the region. Separately, cuts to US-South Korean military exercises drew warnings from the Philippines that China could exploit the resulting defence gaps.

At the centre of focus is the so-called "Quad" diplomatic alliance, and how its three non-American members—Japan, India and Australia—are deepening bilateral and trilateral ties to hedge against US unpredictability. The cooperative has struggled to maintain momentum through the second Trump administration, while its long-anticipated Quad Leaders' Summit remains elusive, with critical minerals and Indo-Pacific security taking centre stage amid persistent doubts over US commitment.

THE THIRD WAY FOR THE QUAD

Amidst the emptying space left by the US, the three non-US members of the Quad have held a flurry of meetings and solidified trade partnerships.

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Japan has been the decisive mover: in August 2026, Japanese Defence Minister Shinjiro Koizumi visited India in what analysts described as the beginning of a structural transition in the bilateral security relationship. The visit followed a July 2026 summit between Prime Ministers Modi and Takaichi, at which India and Japan signed agreements on artificial intelligence, metals, energy and defence, alongside a joint roadmap for economic security. The operational dimension of India-Japan defence cooperation was on vivid display in September 2026, when the chiefs of the Indian Air Force and Japan Air Self-Defence Force flew together in a Tejas fighter formation during the exercise Veer Guardian.

India has also moved to deepen its tied with Australia, with the two countries announcing agreements on mining and defence partnerships. Prime Minister Modi's July 2026 visit to Melbourne produced a landmark uranium supply deal—the first of its kind—alongside a joint statement on energy security and new agreements on mining and defence. Australia and New Zealand also signed a new naval cooperation pact in September 2026, further thickening the web of minilateral security arrangements in the region.

OPPORTUNITIES FORM AN ASIA-FOCUSED QUAD

With this new (perhaps even improved?) Quad coming into view, a number of industries in Asia are poised to benefit from greater partnership and freer trade.

- **Defence and aerospace:** Japan's record defence budget request of JPY8.9 trillion (approximately US$55.6 billion) for fiscal 2027—with a potential expansion to JPY10.6 trillion—and a possible new midterm target of 3.5% of GDP represent a generational shift in Japanese defence spending. This is creating substantial procurement opportunities for domestic and allied defence industries, with a particular focus on artificial intelligence for military decision-making. India's own indigenisation drive, exemplified by the Tejas fighter's growing international profile, is opening new avenues for co-production with Japan and Australia.
- **Critical minerals and energy:** The Quad's Critical Minerals Initiative, launched at the July 2025 Washington foreign ministers' meeting, has become the grouping's most tangible economic deliverable. The Australia-India uranium deal struck in July 2026 is a direct product of this framework, with Western Australia's mining sector positioned to benefit significantly. The Quad also agreed a Fiji port plan and a critical minerals pact at the May 2026 New Delhi meeting, extending the framework into the Pacific Islands.
- **Nuclear energy and advanced technology:** India's uranium deal with Australia opens a new chapter in civilian nuclear energy cooperation, with India's growing energy needs and clean energy transition ambitions creating long-term demand. Japan and India's joint roadmap on AI, metals and energy signals that technology co-development—particularly in semiconductors, AI and clean energy infrastructure—will be a defining feature of the trilateral economic relationship.
- **Submarine and maritime technology:** AUKUS continues to generate significant industrial activity. Five years after its announcement, the programme is progressing with Australia committed to acquiring nuclear-powered submarines at an estimated cost of up to US$266 billion.

WHAT WE'RE WATCHING

The uncertainty and turmoil being created by shifting geopolitical relationships are deepening the pressure points on trade and capital flows. These are not predictions but patterns worth watching as the region navigates a period of accelerating change. Here are the key dynamics to watch:

- **Japan's defence spending surge is the single largest reallocation of capital in Asia's security economy in decades.** A potential defence budget of JPY10.6 trillion, with a target of 3.5% of GDP, would represent a transformation of Japan's fiscal posture and a massive injection of demand into domestic and allied defence industries. Financial markets are already pricing in the implications for Japanese government bond yields and the yen. The ripple effects—on procurement, on technology transfer, on the defence industrial bases of Australia and India—will be felt for a generation.
- **Shipping route disruption is permanently altering the economics of Asian trade.** The Houthi seizure of Yemen's Red Sea coast and three strategic islands in September 2026, combined with the earlier Iranian blockade of the Strait of Hormuz, has forced a fundamental rethinking of Asian energy and goods logistics. Asia's crude imports hit their highest level since the Iran war began, but volumes still trail pre-war levels by about 13%. Russia is simultaneously developing an Arctic energy corridor that could shorten Asian voyages and reduce exposure to Suez disruptions. The net effect is a fragmentation of global shipping into competing corridors, each with different cost structures, risk profiles, and geopolitical dependencies.
- **Could the Pacific Islands become a new theatre of capital competition?** The US and Australia announced a combined US$580 million package at the 55th Pacific Islands Forum in Palau, with Washington pledging US$150 million for energy infrastructure and Canberra focusing on aerial surveillance and law enforcement. A separate US-New Zealand pledge of US$67.5 million will upgrade a former World War II port in the Cook Islands. Beijing responded by calling for cooperation that "safeguards regional peace and stability". Pacific island nations, however, are unlikely to choose sides; their strategy of hedging between great powers is well-established and will continue to extract maximum concessions from all parties.
- **The Trump-Xi summit will be the single most consequential near-term variable for Asian capital flows.** Markets were watching closely as Xi Jinping made his first visit to the US in a decade in late September 2026. The agenda included critical minerals, Taiwan semiconductors, China's ties to Russia and Iran and AI governance. A deal that reduces tariffs or eases technology restrictions could trigger a significant reallocation of capital back toward China-exposed assets. Conversely, a breakdown—or a perception that Trump offered concessions on Taiwan—could accelerate the friend-shoring trend and deepen the structural shift away from China-centric supply chains. The outcome will set the tone for Asian trade and investment flows well into 2027.

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