

Can the IMEC address the Red Sea crisis? | Explained

PREMIUM

How important is the Red Sea trading route to India? Has China offered an alternative route?

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People walk past a graffiti, depicting a Houthi fighter stopping an Israeli ship off the coast of Yemen. | Photo Credit: REUTERS

The story so far: As the Red Sea crisis enters its fourth month, global supply chains are increasingly grappling with inflated freights, delayed vessel schedules, and product shortages. It has once again brought to the fore the vulnerabilities of global supply chains, highlighting the need to revisit alternate routes for global trade.



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Why is the Red Sea route important?

The Red Sea owes its strategic importance for global trade to the Bab el-Mandab Strait which lies between Yemen and Djibouti. **It is one of the world's busiest cargo and oil transit points with almost 12% of international merchandise trade passing through it. An immediate consequence of the Red Sea conflict has been that major container and oil carriers have been forced to re-route shipments via the Cape of Good Hope. The re-routing has led to rising ocean freight, inflated insurance costs, and longer voyage times leading to delays and shortage of products. It has also driven up transportation costs. The higher shipping costs will be passed onto consumers in the form of increased commodity prices.**

How has it affected India?

India's trade with European and North African countries flows entirely through the Red Sea route which is almost 24% of its exports and 14% of its imports. In the year 2022-23, India's bilateral trade with Europe and North Africa stood at \$189 billion and \$15 billion respectively. The rising fears among traders have already seen a drop in Indian shipments. As per the Federation of Indian Export Organisations (FIEO), rising threats have prompted Indian exporters to hold back around 25% of their cargo ships transitioning through the Red Sea.

As global supply chains are battling delayed shipments and rising costs, China is actively projecting China-Europe freight trains, which are part of the Belt and Road Initiative (BRI), as an alternate route.

What about the IMEC?

The India-Middle East-Europe Economic Corridor (IMEC), which was announced during the G-20 summit in 2023, is another alternative which is not receiving much attention. Part of the problem is that apart from the MoUs, there have not been any investments or operations regarding the corridor. Furthermore, the Israel-Palestine conflict has put a pause on the normalisation of Arab-Israel relations which is a key element of the multi-nation initiative. Another major challenge is the vulnerability of the Strait of Hormuz.

The entire trade of the IMEC architecture flows through the Strait of Hormuz and with Iran's proximity and control over the strait, the risk of disruptions remain very high. Some experts argue that the Strait of Hormuz problem can be avoided by including Oman in the IMEC architecture and keeping the supply chain away from Iran's reach. However, that would mean further delays, as new ports and railway links will have to be developed across Oman connecting it to Saudi Arabia.

How can the IMEC be made viable?

Despite such challenges, the economic logic of the corridor holds, which should encourage stakeholders to keep working towards it. First, an empirical study on the economic benefits of the corridor needs to be conducted. The corridor is estimated to cut the journey time from India to Europe by 40% and slash transit costs by 30%. However, there are speculations that multiple handling of cargo and multi-nation transit would increase carriage and compliance costs. Therefore, it is critical to quantify the economic advantages of the corridor to attract more stakeholders. Secondly, a robust financial framework needs to be in place. Since there are no binding financial commitments on any of the signatories of the corridor, investments will have to be attracted from governments, international organisations, and private sector entities.

Lastly, a comprehensive multi-nation operational framework is needed. As the corridor involves facilitating trade across different legal systems, a multi-national framework is necessary. A forum for the corridor needs to be constituted to undertake the aforementioned activities.

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