IMEC

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Why is in news? Can the IMEC address the Red Sea crisis?

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.

Importance of Red Sea route:

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.**

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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.

About IMEC:

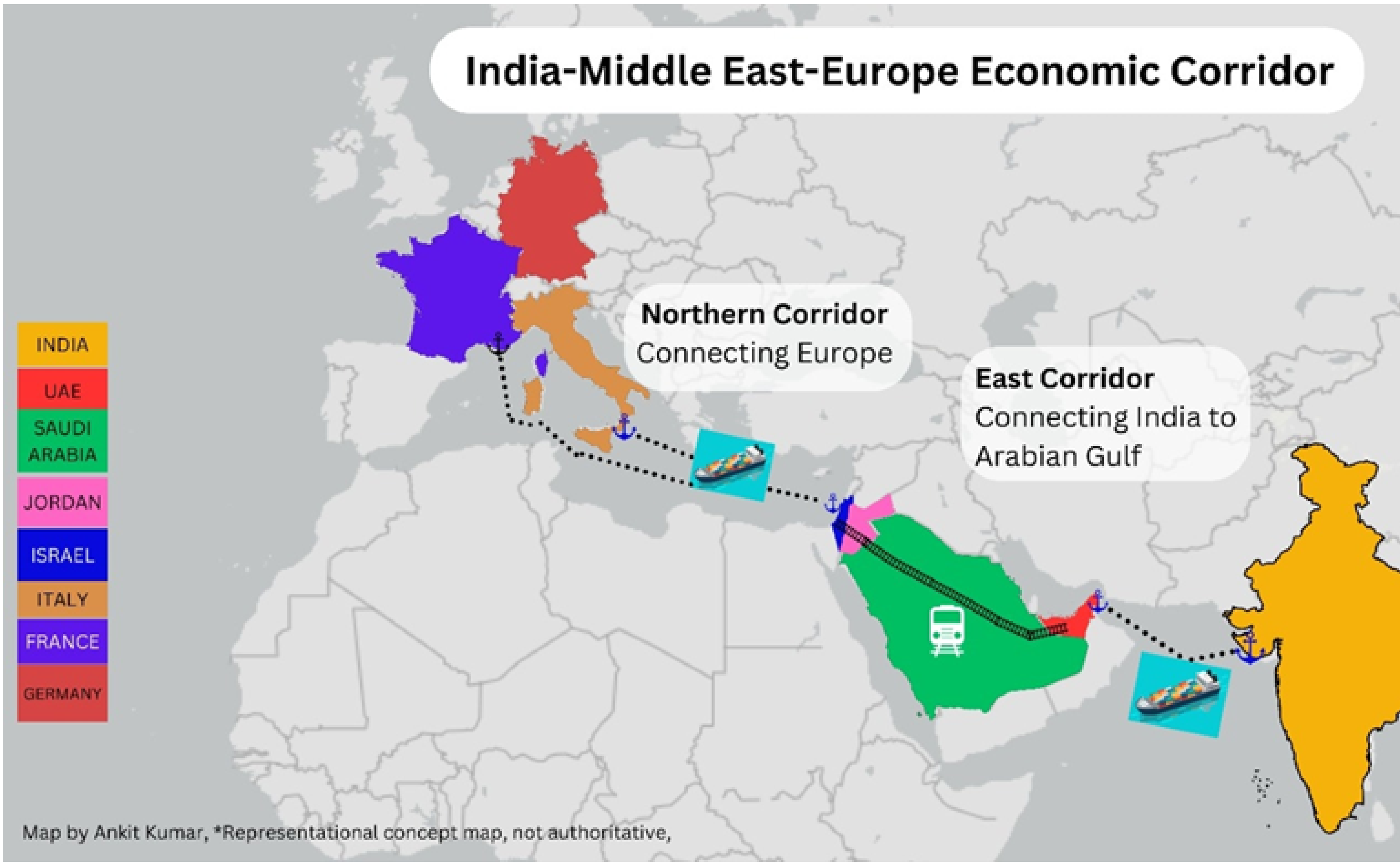
The India-Middle East-Europe Economic Corridor (IMEC), which was **announced during the G-20 summit in 2023**, is another alternative which is not receiving much attention.

The primary objective of the IMEC is to **enhance economic growth** through improved connectivity and economic integration among Asia, the Arabian Gulf, and Europe, with a focus on strengthening manufacturing, ensuring food security, and optimizing supply chains.

The IMEC project will comprise **two distinct corridors**, namely:

The Eastern Corridor: This corridor links India with the Arabian Gulf. It features railroads, ship-to-rail networks, and road transport routes.

The Northern Corridor: This corridor connects the Gulf region to Europe. This incorporates similar transportation infrastructure, including rail, ship-to-rail links, and road networks.



Significance of IMEC:

This project reflects emerging geopolitical trends as it offers an **alternative to China's Belt and Road Initiative (BRI).** BRI is often perceived as a tool for exerting influence and creating debt traps in developing nations.

The Indian government's efforts to **strengthen political and strategic ties with the UAE and Saudi Arabia** can now be further solidified by creating enduring connectivity between India and the Arabian Peninsula.

This initiative **dispels the notion** that India and the United States may collaborate in the Indo-Pacific but not in the Middle East. The project showcases how India and the U.S., along with Israel and the UAE, can partner in developing joint economic projects through forums like the I2U2.

The mega connectivity project has the potential to **reduce political tensions in the Arabian Peninsula** and serve as "**Infrastructure for Peace**" by promoting intra-regional connectivity, according to the U.S.

The corridor signifies **Europe's active involvement in infrastructure development** in the region. The European Union's support for this initiative positions it as a major stakeholder in integrating India with both the Arabian Peninsula and Europe.

The U.S. and the EU have proposed plans to **establish a Trans-African corridor** connecting Angola, the Democratic Republic of Congo, and Zambia. The success of IMEC could lead to further collaboration between India, the U.S., and the EU in Africa, aligning with India's increasing engagement with the continent.

IMEC **effectively bypasses Pakistan's veto over India's overland connectivity** to the West, which has been a longstanding obstacle to India's regional integration.

Issues with IMEC:

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.

Way forward:

Despite such challenges, the economic logic of the corridor holds, which should encourage stakeholders to keep working towards it.

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.

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.

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.