MIDDLE EAST TRADE CORRIDOR AND ITS POSSIBLE IMPACT ON INDIA'S GDP

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01 INTRODUCTION

We provide a detailed analysis of the erstwhile versions of the corridor through economic history and the possible impact of this agreement on India's GDP in the coming years.

Some of the questions that are to be explored include: What are the key trade related constraints that METC helps to solve? How does the historical and current perspective of this route make it geographically suitable for consistent trade? What are some of the geo-political challenges for the METC? What are the contours of the METC agreement thus far and what can be done to optimize its potential? Which are the most likely products or services that emanate in this corridor? Through these questions, we hope to understand the potential impact of the METC agreement on Indian GDP in the medium to long run.

02 OBJECTIVE

The main objective of this paper is to understand the potential impact of the METC agreement on Indian GDP in the medium to long run. This paper includes analysis, estimation and evaluation of the Middle East Trade Corridor (METC) and its possible impact on India's GDP in the medium to long run.

03 METHODOLOGY

We employ the standard GTAP model, which is a multi-country multi-sector CGE model, accounting for linkages between economic agents—including households, governments, and the rest of the world In the GTAP model, the regional household receives factor payments from different agents including private households, firms, and the government for the supply of factors like land, labor, and capital.

The methodology behind the time quantified for IMEC is by studying trade efficiency of time where Indian goods reach the European mainland in as little as 10 days arriving via the trans-Mediterranean maritime link from Israel's Haifa port to the massive transhipment port in Piraeus, Greece. With freight rail service from Piraeus, Indian goods can reach Europe's major markets and manufacturing centers, cutting the current travel time for India-to-Europe commercial transportation by 40 per cent.

Figure 15 Standard GTAP Production Structure
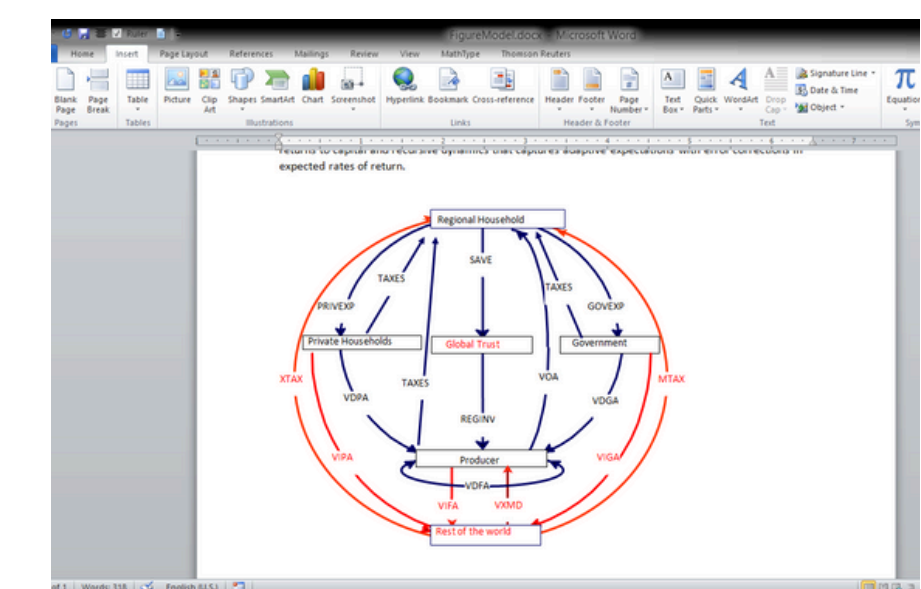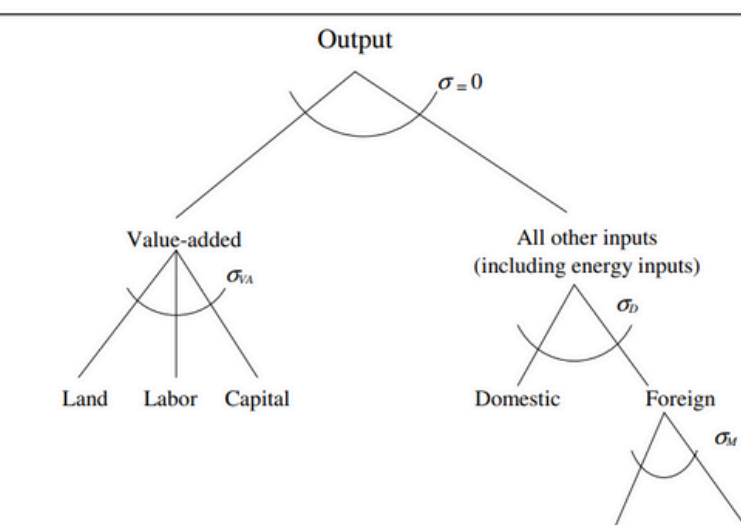
04 ANALYSIS

>We use the GTAP variable – ams – which captures trade facilitation - Reduction of trade costs other than transportation (ease of regulation).
a) Official measures of Non Tariff Measures Ad Valorem equivalents – Time as a barrier to trade
b) Good-wise reduction applied (estimated using gravity equation)

>Finding tariff equivalents for countries using the gravity equation.
There are 3 basic criteria to find the influence of time affecting trade,
a)Per day value of time savings
b)Per day value of time saving for each country
c)Finally to calculate tariff eq for import and export waiting times.

>Tariff Eq for time cost of 1 day = x%
Total Reduction in waiting time = y days
x*y = Total Tariff Equivalent Reduction

>Estimates here are for imports and exports using two alternative weighting schemes:
a) The current imports and exports of the country, and
b) The imports and exports of the region to which the country belongs.

Trade reduction
Pre-IMEC waiting time = 16 days
Post-IMEC waiting time = 10 days (i.e: 40% reduction of nearly 6.4 days)

Value of Time Saving and Share in World Trade for Selected Products

Description	Share in World Trade (%)	Tariff Equivalent for Value of Time Saving Per Day (%)
Road vehicles (including air-cushion vehicles)	7	2
Coffee, tea, cocoa, spices, and manufactures thereof	0.5	1.1
Telecom, sound recording and reproduction app and equip.	4.4	0.9
Vegetables and fruit	1.3	0.9
Motor vehicle parts	2.4	0.8
Cereals and cereal preparations	0.9	0.8
Articles of apparel and clothing accessories	3.7	0.7
Power generating machinery and equipment	2.6	0.6
Textile yarn, fabrics, made-up articles, n.e.s.	2.3	0.6
Office machines and automatic data processing machines	5.4	0.5
Medicinal and pharmaceutical products	2.9	0.3
Footwear	0.8	0.2

GOODS	Tariff eq for value of time savings per day %	no of days saved due to imec	With EU-India, IMEC import Tariff eq for value of time savings %
Road Vehicles	2	6.4	12.8
Coffee, tea, cocoa, spices, and manufacturing, oil seed, raw milk , su	1.1	6.4	7.04
Telecom, sound recording and reproduction app and eqip, communica	0.9	6.4	5.76
Vegetables and fruits, sugarcane	0.9	6.4	5.76
Motor vehicle parts	0.8	6.4	5.12
Cereals, and cereals prepration	0.8	6.4	5.12
Articles of apparel and clothing	0.7	6.4	4.48
Power generating machinery and equipment	0.6	6.4	3.84
Textile yarn, fabrics, made-up articles, ,Plantfibers, leather	0.6	6.4	3.84
Office machines and automatic data processing machines, business	0.5	6.4	3.2
Medicinal and pharmaceutical products, human health	0.3	6.4	1.92
Footwear	0.2	6.4	1.28
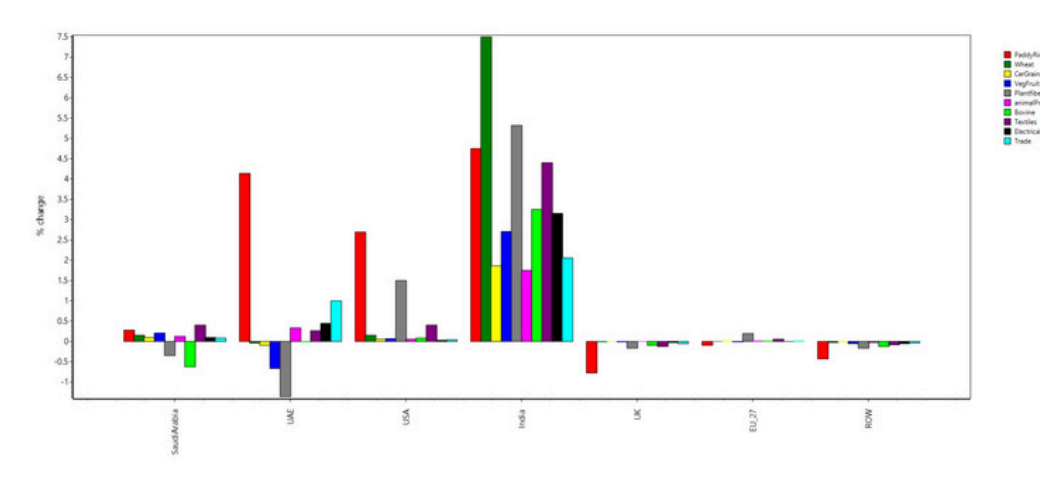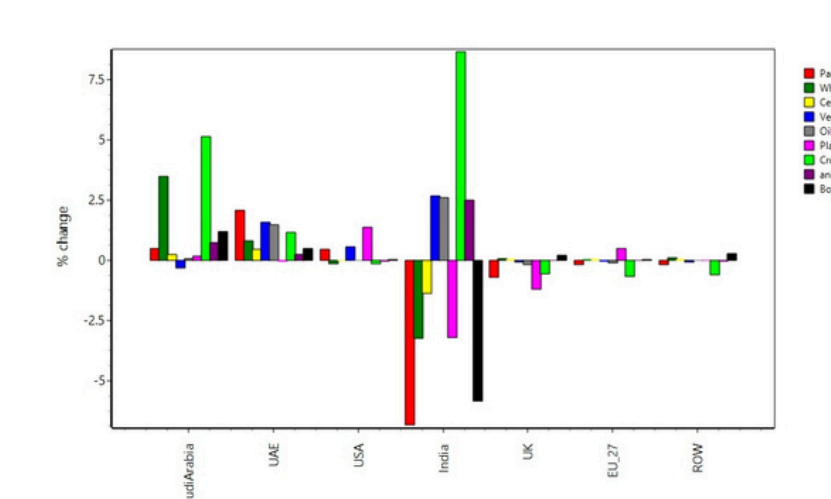
EXPORT AND IMPORT METRICS

05 RESULTS

The attraction of the two-way transport link lies in reducing the dependence on the Suez Canal and creating a route that could be 40 percent faster because high-speed freight trains would travel at 120 kmph, which is about 4 times faster than the pace of ships.
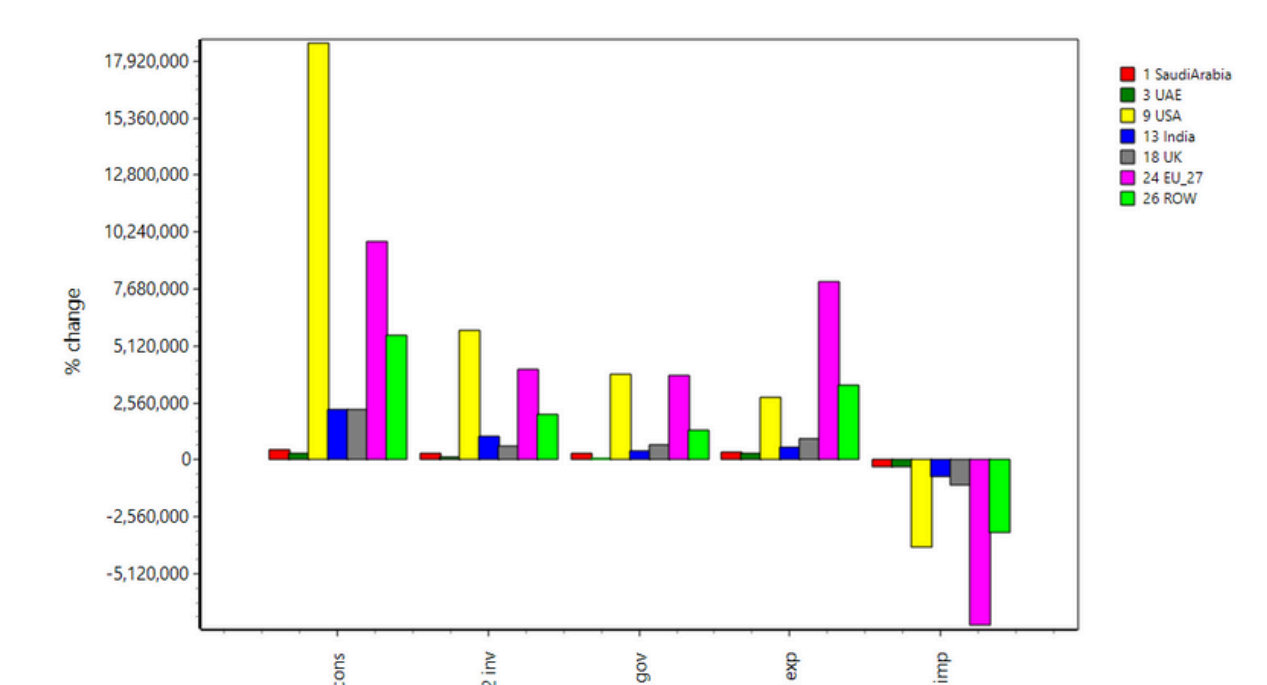
As we see a substantial increase in net global GDP ratios along with an increase in imports and exports facilitated by the IMEC corridor, particularly in a quite prominent way in India. Imports particularly rise a lot in perishable products such as crops and livestock, but also in others such as textiles and electrical equipment. Wholesale and retail trade sector also sees a major rise in imports, due to the overall surge in market activities.

As for exports, the results are mixed, because of a combination of trade complementarities among the partner countries and trade diversion.

For example, India's exports of grains may fall because of rise in their exports from some of the other countries. Nevertheless, India's exports of vegetables, fruits, oilseeds, other crops and animal products may rise substantially as the the behavioral equations in the model dictate production, private consumption, exports, imports, and market-clearing conditions that equate supply with demand.

06 CONCLUSION

Hence as India's trade with Europe and the US grows, it would be in India's strategic interest to promote the IMEC as an alternate corridor that lends a degree of redundancy to the existing trade route as basing on our analysis with application of reduced time-tariffs equivalents across board in the model, we see a notable increase in India's GDP of about 11.9 billion USD and an increase in exports by about 4 billion USD due to the faster and reliable trade using the middle east corridor. With this we also observe impactful changes in trade patterns, improved logistics, new trade agreements, domestic production boost, supply chain diversification and many more. These factors collectively contribute to a reduction in imports, depending on how businesses and consumers respond to the new trade route.

GDP METRICS